PUBLIC ACCOUNTS COMMITTEE

RETURN to an Order of the Honourable the House of Commons, dated 6 December, 1926 ;—*for*

EPITOME OF THE REPORTS FROM THE COMMITTEES OF PUBLIC ACCOUNTS

1857 to 1925

AND OF THE TREASURY MINUTES THEREON, WITH AN INDEX

Treasury Chambers,
10 December, 1926 } RONALD McNEILL.

(*Mr. William Graham*).

Ordered, by The House of Commons, *to be printed* 14 *December*, 1926.

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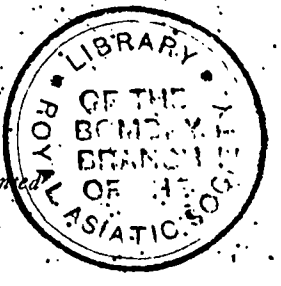

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PREFACE TO THE 1911 EDITION.

In the Preface to the Fourth Volume of the Handbook to the Reports from the Committees of Public Accounts (H.C. 382/1908), and in my General Report on the Civil Service Appropriation Accounts, 1907–8 (H.C. 13/1909), it was stated that I had arranged for the preparation in my Department of a new Volume comprisng all the matter of permanent interest contained in the Reports of the Committees, and the Treasury Minutes thereon, since 1857.

In the new Volume it has been my aim to include :—

(1) All recommendations on questions of principle affecting accounts generally, if still in force.

(2) Recommendations afterwards amplified or amended, only when it seems desirable to illustrate the historical development of a principle.

(3) Recommendations relating to particular accounts, only when necessary to explain the form or contents of the current Estimates or Accounts.

The Reports are arranged in chronological order, but paragraphs quoted at length or fully summarized in a later Report have, as a rule, been omitted from the original Report.

The various sections of the Reports are immediately followed in italics by the comments and decisions of the Treasury on the points discussed, the dates of the Treasury Minutes being shown at the head of each Report.

Some of the more important Appendix papers have been included; the information contained in the Reports and Treasury Minutes has been supplemented in many cases by references to subsequent legislation or other proceedings; and, to facilitate reference, additional paragraph headings have been inserted.

JOHN A. KEMPE,

Exchequer and Audit Department,
23 January 1911.

Comptroller and Auditor General.

PREFACE TO THE REVISED EDITION.

The object of this volume is to bring the edition of 1911 up to date, i.e., up to the end of the year 1925.

When the work was set in hand it seemed probable that in view of the developments of recent years much of the matter included in the original Epitome would be found to have lost its practical interest, but closer examination showed that no considerable excisions could be made without risk of altering the character of the work, notably so far as illustration of historical development is concerned.

In these circumstances I have thought it preferable to reprint the original Epitome with emendations of a minor character only, and references to pages of the older volume will, with trifling exceptions, hold good for the present one.

In selecting matter from the Reports of 1911–1925 it has been my aim to adhere as closely as possible to the principles observed in 1911.

MALCOLM G. RAMSAY,

Comptroller and Auditor General.

Exchequer and Audit Department,
9 December 1926.

Note.—For explanation of abbreviations used in this volume see page 696.

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REPORT FROM THE SELECT COMMITTEE ON PUBLIC MONIES, 1857. H.C. 279, SESS. 2, 1857.*

Treasury Minute, 15 February 1858, H.C. 94.

THE SELECT COMMITTEE appointed to inquire into the Receipt, Issue, and Audit of PUBLIC MONIES in the EXCHEQUER, the PAY OFFICE, and the AUDIT DEPARTMENT, and who were empowered to Report their Observations thereupon to the House;—HAVE considered the Matters to them referred, and have agreed to the following Report:—

1. Your Committee have considered the evidence and documents collected by the Select Committee on Public Monies in 1856, which have been referred to them, as well as further important papers laid before them, which will be found in the Appendix; and they have agreed to submit the following recommendations to The House:

II.—*Payment of the gross Revenue to the Exchequer.*

5. During the progress of the inquiries of the Committee of 1856, an Act was passed (19 & 20 Vict., cap. 59) for removing from the gross revenues certain superannuations and other charges which had remained payable out of those revenues after the passing of the Act 17 & 18 Vict., cap. 94, under which the charges of collecting the revenue and various other expenses were transferred to the Annual Estimates, or placed on the Consolidated Fund.

6. With the exception of the charges on the Land Revenues of the Crown, the net receipts of which are only payable to the Consolidated Fund under the Act 10 Geo. IV., cap. 50, sec. 113, and under the Act 1 & 2 Vict., for the settlement of the Civil List, the only payments which can now be legally charged upon the public revenues are drawbacks, bounties, repayments, and discounts. Although your Committee have no reason for believing that any expenses have been defrayed out of those revenues in their progress to the Exchequer which were not legally chargeable thereon, they are nevertheless of opinion that it is essential to a proper parliamentary control of the public money that the law should distinctly require that the whole revenue, after providing for those charges, should be paid to the Consolidated Fund, from which it cannot be issued without parliamentary sanction† . . .

7. They recommend that the payments of revenue should, as far as practicable, be paid direct into the Exchequer, and that those payments made into the Pay Office should be transferred to the Exchequer Account with as little delay as may be consistent with the public service.

T.M., 15 February 1858.—17. *The Committee further recommend that the payments of revenue should, as far as practicable, be made direct to the Exchequer, and that the sums collected by the Pay Office should be transferred, without delay, to the Exchequer. As regards the sums collected by the Pay Office, by far the larger portion of such sums consists of mere transfers in account; the proceeds of the sale of old*

* See also Treasury Minute 16 April 1885, at pp. 178–9, and P.A.C. 1902, Appendix 5, at p. 451.

† The payment of the gross revenue to the Exchequer was specifically enacted by the Exchequer and Audit Departments Act, 1866, sec. 10.

stores, for instance, are used as imprest moneys wherever they are collected, and a sum equivalent to such receipts is transferred to the Exchequer out of the funds in the Exchequer at the credit of the departments by which those receipts are retained. The minor receipts of the Pay Office are of insignificant amount, and are transferred to the Exchequer account at short intervals. The recommendation of the Committee is in accordance with the established practice, and my Lords will take care that it is regularly adhered to.

HOUSE OF COMMONS, 8 April 1861.

ORDERED, That a Select Committee be appointed for the examination, from year to year, of the audited accounts of the public expenditure.

FOURTH REPORT, 1861. H.C. 448.

THE SELECT COMMITTEE appointed for the Examination from Year to Year of the Audited Accounts of the PUBLIC EXPENDITURE, have made further progress in the matters to them referred, and have agreed to the following Fourth Report:—

Civil Contingencies Fund.

The Vote for Civil Contingencies provides a sum entrusted to the Government to meet unexpected demands, and to make advances for services to be afterwards voted by Parliament. The account, therefore, includes one of the final payments charged on the fund, and an account of advances.

Final Payments.

The control of the Civil Contingency Fund rests with the Treasury, but the final payments are mainly for expenses incurred under the Colonial, Foreign, and Home Departments. In such cases the Treasury, on the application of the Secretary of State, directs the payment by an order to the Paymaster General in England, or the proper officer in Scotland or Ireland. The details of the expenditure are examined in the office of the Secretary of State, and are not audited either at the Treasury or Audit Office. The order on the Paymaster General is his authority for the payment, and is audited with his accounts by the Audit Board. In cases where the expenditure is under the Treasury, the detailed examination is made there, but no audit takes place at Somerset House*; and as in payments made for other departments, the vouchers of the detailed expenditure never come before the Audit Board. They have only the orders on the Paymaster to make a payment, unless the detailed accounts are specially referred to them by the Treasury.

The Civil Contingency Vote has diminished in later years. Many of the charges have been removed to the Estimates, and this course has been, to a certain extent, followed in the Estimate for the current year. Mr. Anderson, the Financial Clerk of the Treasury, has stated that in his opinion the greater part of the final payments might be removed from Civil Contingencies, and voted on Estimate, as other services. There would remain some unexpected charges, which could not be included in any prospective Estimate.

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* The Audit Office was at Somerset House from 1785 to 1902.

Advances.

The Advances are divided in the account under four heads:

(1) £8,271 9*s*. 5*d*. Advances for Services charged on the Consolidated Fund.

Only one sum remains outstanding under this head, which should be removed either by repayment from the Consolidated Fund, or such other mode as may appear consistent with the Acts of Parliament.

(2) £67,510 7*s*. 4*d*. Advances for Ordinary Services.

There is no power of applying the surplus on one Civil Service Vote to the deficiency on another; in case, therefore, of an unexpected deficiency of the Vote, the sum required is advanced from Civil Contingencies, and is repaid from the Vote of the next year. No arrears will remain under this head when the Civil Services of the current year have all been voted.

(3) £33,569 4*s*. 10*d*. Advances for New Services.

Where an unexpected expenditure becomes necessary, and no money has been voted applicable to the service, the sum required is advanced from the Civil Contingencies, and a Vote is submitted to Parliament, from which the advance is repaid. Under this head there will be no arrears when the Civil Service Votes shall have passed.

(4) £53,025 17*s*. 10*d*. Advances to be repaid from other Sources.

Some of these advances require attention. In March 1857, Government purchased a chapel at Paris for £10,905. Parliament refused to sanction the vote for the payment of this money. The chapel was therefore resold in April 1859 for £9,000, payable by instalments. Of this sum there remained on 31 March 1861 a sum of £2,000 outstanding, which your Committee were informed would be paid in a short time. But the difference between the sum paid and the sum received for the chapel, viz., £1,905, will be a charge on the public, although it appears on the account as an advance to be repaid. This sum ought to have appeared as a final payment, and been brought to the knowledge of Parliament.

There is a sum of £1,858, being half of the cost of maintaining Commissioner Yeh during his detention by the allied forces. The advance was made between 1858 and 1860, and is due by the French Government. We mention this item merely for the purpose of pointing out the expediency of settling such advances without delay.

Third, a sum of £37,395 advanced to the Government of Monte Video in the years 1845 to 1848, inclusive.

This case, in the opinion of your Committee, proves the necessity of some change in the mode of dealing with the Civil Contingency account. The sum is considerable. The expenditure was incurred without the knowledge of Parliament. The advance was made from Civil Contingencies, a fund to which it hardly belonged, and not from the Treasury Chest, which would have brought it before Parliament; and from the years 1845 to 1848, down to this time, it has been dealt with and represented as an advance.

Recommendations.

Your Committee proceed to suggest such arrangements as they think may place the fund on a satisfactory footing.

The fund which is now the Treasury Chest and the Contingency Fund were at one time very similar in character. From both were made advances and final payments, and both were recruited from time to time by Parliamentary Votes, and often upon inadequate information. A great and beneficial alteration has been made with respect to the Treasury Chest Fund; it has become one of deposit, and no final payments

should be charged on it. The amount of the fund is fixed, any deficiency is replaced by Parliament, and any surplus beyond such amount is paid over to the Exchequer.

Your Committee propose to apply the same principle to the Civil Contingency Fund.

To effect this object two preliminary steps will be necessary:—

1. That all final payments capable of estimate should be removed from Civil Contingencies, and be submitted in the Annual Estimates as other services.

2. That any hopeless advance, such as the Monte Video Loan, should likewise be removed from the account. There will be no serious difficulty in effecting these changes.

Your Committee would then recommend:—

3. That the Civil Contingency Fund should be fixed at £120,000.

4. That the Treasury should continue to make advances to meet deficiencies on the ordinary Votes or for new services, and that such advances be included in the Estimates for the succeeding year, as at present, and be repaid to the Contingency Fund.

5. That the Estimates should in each case state the sum to be repaid to the Contingency Fund.

6. That no final payment should be charged on the fund; but that in case Government, for the public service, feel it necessary on their responsibility to incur any Civil Service expenses, the deficiency occasioned by such expenditure shall be considered as an advance, and be submitted to Parliament as a Vote in the succeeding year.

7. That accounts of the Civil Contingency Fund, similar to the accounts of the Treasury Chest presented to Parliament, should be prepared by the Treasury, and by them be forwarded with the necessary vouchers to the Audit Office; and that the Auditors should present such accounts annually to Parliament, together with such observations as they may think fit.

By this arrangement, your Committee believe that sufficient power will be left to the Government to meet any unexpected necessity, while the greater part of the expenses now charged on the Contingency Fund will be voted by Parliament on estimate; the sums advanced to meet emergencies will be ultimately brought before Parliament in the shape of a vote; and every advance will appear in the Annual Account.

HOUSE OF COMMONS, 31 March 1862.

RESOLVED, That there shall be a standing Committee to be designated "The Committee of Public Accounts" for the examination of the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, to consist of nine* members, who shall be nominated at the commencement of every session, and of whom five shall be a quorum.

8 April 1862.

ORDERED, That the Resolution of the 31st March, relative to public accounts, be a standing order of the House.

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* *Note.*—The standing order was amended on 28 March 1870 by the substitution of "eleven" for "nine". In each year since 1893 it has been ordered that the Committee do consist of fifteen members.

FIRST REPORT, 1862. H.C. 220.

Treasury Memorandum, 25 April 1863.

THE COMMITTEE for the Examination of the Accounts, showing the Appropriation of the Sums Granted by Parliament to meet the Public Expenditure;—HAVE made progress in the matters to them referred, and have agreed to the following First Report:—

* * * * *

Civil Contingencies Fund.

The Fourth Report [of 1861] is confined to the Civil Contingency Fund.

It recommends two preliminary steps:

1. That all final payments should be removed to the annual Estimates;* and,—

2. That all hopeless advances should be removed from the Civil Contingencies Account.

Both these recommendations have been adopted.

The Report then proposes,—

3. That the Civil Contingency Fund should be fixed at £120,000.† Measures are in progress for carrying out this proposal.

4. } These proposals recommend that no final payment should be
5. } charged on the fund, but in all cases where the Treasury shall
6. } make advances on the ordinary Votes, either for deficiencies or sums unprovided for, the Estimates of the succeeding years should state the sum advanced; that such sum should be voted in such Estimate of the succeeding year, and be repaid to Civil Contingency Fund; and that the same course should be followed in cases where Government should feel it necessary on their responsibility to incur any Civil Service expense not coming under any head of Estimate.

The Treasury have adopted all these recommendations, and appear to have given the necessary directions.

7. Lastly it is recommended, that Accounts of the Civil Contingency Fund, similar to the Account of the Treasury Chest, should be prepared by the Treasury, audited by the Audit Office, and presented to Parliament, with such observations as the auditors may think fit. This also will be carried out for the future years.‡

Treasury Memorandum, 25 April 1863, appended to P.A.C. 1. 1863, p. 1:—A Treasury Minute (8054) has been issued§ creating the new Civil Contingencies Fund, recommended by the Committee, and directing the preparation of annual accounts, to be audited by the Commissioners of Audit, and laid before Parliament in accordance with the recommendations of the Committee. This account will exhibit the advances and repayments during the year, and the balance remaining to be recovered.

* * * * *

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* Treasury Minute 8 February 1862, printed at p. 19 of Appendix to P.A.C. 1. 1862, gives a list of the Votes to which the payments were removed.

† The Fund was increased to £300,000 by a Supplementary Vote taken in February 1913. By the Civil Contingencies Fund Act, 1919, power was given to increase the Fund temporarily to £120,000,000. This power was withdrawn by the Finance Act, 1921, which fixed the capital of the Fund at £1,500,000. See P.A.C. 8, 1921, 74, at page 634.

‡ In the absence of statutory regulation, as in the case of the Treasury Chest Fund (*see* p. 452), the accounts of the Civil Contingencies Fund are presented in response to an Order of the House of Commons, repeated annually after the accounts have been audited.

§ Printed with Civil Contingencies Fund Accounts for 1862-63, H.C. 410, 1863.

SECOND REPORT, 1862. H.C. 414.

Treasury Minute, 27 January 1863. H.C. 52.

Transfers between Votes, Navy and Army.

YOUR Committee have had under their consideration the Accounts of the Navy and the Army, and have made progress in their inquiry. There is one question of considerable importance, which is common to both Services, and, as it relates to the provisions of the Appropriation Act, must come before Parliament this Session. Your Committee have therefore decided to bring this subject at once before the House, and in a separate form, leaving for subsequent reports any observations which they may have to make on the details of the Navy and Army Accounts.

By the Appropriation Act for 1860–61, it is enacted that "There "may be issued and applied any sum or sums of money not exceeding "£12,836,100, for or towards the Navy Services hereinafter more par- "ticularly mentioned." The clause goes on to specify the different Votes for Wages, &c., as voted on the Navy Estimates. As regards the Army, it enacts, "There may be issued and applied any sum or sums of "money, not exceeding £6,065,161 for defraying the charge for arti- "ficers, labourers, and others, employed at home and abroad, and the "charge of the supplies of clothing and necessaries, provisions, forage, "fuel and light, barrack furniture, bedding, &c., and the charge of "stores for Land and Sea Service, and the charge of fortifications, "works, buildings, and barracks at home and abroad, hereinafter more "particularly mentioned, that is to say:" The clause then proceeds to specify the sums under the particular Votes. Having done so, it goes on with a second grant, "and any sum or sums of money not exceeding £9,247,514 for defraying all other Army Services hereinafter "more particularly mentioned, that is to say:" here follows the amount of the Votes for the particular services included under this second grant.

The 29th clause enacts that:—

"The respective Departments charged with the detailed application "of the sums granted by this Act for Navy and Army Services, shall "confine the expenditure of their respective Departments within the "particular amounts appropriated to each of the separate services "comprised in the sum of Twelve million eight hundred thirty-six "thousand and one hundred pounds granted by this Act for Naval "Services; and in the sum of Six million and sixty-five thousand one "hundred and sixty-one pounds granted by this Act for defraying the "charge for wages of artificers, labourers, and others employed at home "and abroad, and the charge of the supplies of clothing and necessaries, "provisions, forage, fuel, and light, barrack furniture, bedding, &c., "and the charge of stores for Land and Sea Service, and the charge of "fortifications, works, buildings, and barracks at home and abroad; and "in the sum of Nine million two hundred forty-seven thousand five "hundred and fourteen pounds granted by this Act for all other Army "Services: provided always, that if the exigencies of the Public Service "shall render it indispensably necessary to alter the proportions assigned "to any of the separate services comprised in the said aggregate sums "granted by this Act for Naval Services or for Army Services, the "Department in which such necessity shall have arisen shall represent "the circumstances which may have led to it in writing to the "Commissoners of Her Majesty's Treasury, and it shall be lawful for "such Department, on Her Majesty's pleasure to that effect being "signified by the Commissioners of Her Majesty's Treasury, to apply in "aid of the deficient grant a further limited sum out of any surplus

" or surpluses under other heads of service in the same Department: " provided always, that the aggregate sum of Twelve million eight " hundred thirty-six thousand and one hundred pounds granted by this " Act for Naval Services, or the aggregate sum of Fifteen million three " hundred and twelve thousand six hundred and seventy-five pounds for " the respective Army Services specified, shall not be exceeded: " provided also, that there shall be laid before the House of Commons " with the Navy and Army Estimates for each year a statement showing " all cases in which the Naval and Military Departments shall have " obtained the sanction of the Commissioners of Her Majesty's Treasury " to any alteration in the sums appropriated to the respective Votes " aforesaid, during the year ended on the 31st day of December of the " preceding year, together with copies of the representations made to " the Commissioners of Her Majesty's Treasury by the said Depart- " ments."

By the Act, therefore, the Exchequer is authorized to issue for the Navy Services an amount equal to the aggregate sum of all the different Votes. The Admiralty is bound to confine the expenditure within the several Votes, but they have the power, under certain circumstances, with the sanction of the Treasury, to apply the surplus on one Vote to meet the deficiency on the others.

In the case of the Army, there are two grants, one for £6,065,161, and the other £9,247,514. The Exchequer, therefore, is bound to issue under these separate grants. The Army Department are bound to keep within the respective Votes, but they have the power, with the sanction of the Treasury, to carry the surplus on one Vote to meet the deficit on the other, without any reference to the division of the services into two grants.

Your Committee propose in this report to confine their observations to the question whether the power of transfer thus given has proved beneficial, and how far it is advisable to retain it in its present form, in future Appropriation Acts.

Your Committee have examined Sir R. Bromley and Colonel Greene, from the Admiralty; Mr. Romilly, chairman, and Mr. Macaulay, secretary of the Audit Board; Mr. Vine, the examiner of Army and Navy Accounts; Mr. Brown and Mr. Whiffin, Accountant General and Deputy-Accountant General of the Army; Mr. Anderson and Mr. Arbuthnot, of the Treasury; the Chancellor of the Exchequer; the Duke of Somerset, and Sir George Cornewall Lewis. They have also had the benefit of papers drawn up by Mr. Anderson, Mr. Romilly, and Sir R. Bromley, developing their different views on the subject.

Previous to 1832, the Admiralty were in the habit of transferring the moneys under one Vote to services estimated for under another, without any sanction or knowledge of Parliament. By Sir James Graham's alterations, in 1833, the system was changed. An Appropriation Audit secured that the expenditure should be posted correctly under the proper Vote. An Account certified by the Audit Board, was by Act of Parliament annually laid upon the Table, showing on each Vote the amount, the expenditure, and the surplus or deficiency.

The Admiralty, however, continued to retain the power, without the sanction of the Treasury, of transferring the surplus of one Vote to meet the deficiency on any other, provided the aggregate grant was not exceeded.

In 1845 an alteration was made in the Appropriation Act, and the power of the Admiralty and Treasury was put on the present footing.

In 1846 the system of appropriation audit in force in the Navy was introduced into the Army Departments. Those Departments, viz., the

Ordnance and the War Office, presented separate Estimates. They had, within their respective grants, the same power of transfer as the Admiralty, but no transfer could be made from a Vote under one Department to the deficiency on that of another.

In 1856–57 these Departments, together with the Commissariat were united under the Secretary of State for War. In the Appropriation Act the sums given for the Army were divided into two aggregate grants, and the power of transfer was confined to the separate grants, viz., that the surplus on a Vote within one grant might be transferred to the deficiency on a Vote within the same grant, but not to any deficiency on a Vote within the other grant.

In the year 1858 it appears that a change was made in the Appropriation Act, and the words were altered, so as to give to the War Department the power, with Treasury consent, to transfer the surplus on a Vote within one grant to the deficiency on a Vote included in the other grant. The change thus introduced has been continued in subsequent Acts.

Before your Committee proceed further, they must call the attention of the House to the nature of the change thus introduced.

When the consolidation of the Army Departments took place, it was objected that the moneys hitherto divided under separate Estimates would thus be brought into one great grant; and if there were no limit, the Government would have a very extended power of transferring sums from one service to another without the sanction of Parliament. This objection was considered reasonable, and the Government divided the Votes into two aggregate grants, for the purpose of placing a limit on that power, and the Appropriation Act carried the intention of the House and of the Government into effect. The subsequent alteration was made without the attention of the House being called to the point. The Bill was not printed, and, as your Committee are informed, the change was made through inadvertence. By the alteration the intended limitation was entirely removed, and though apparently the amount is checked by the division into two grants, the Government have the power to exceed the aggregate amount of one grant, by carrying to it any saving on the other. In case the power of transfer is continued, your Committee consider that it should be limited to the extent of the particular grant, and thus be brought in conformity with the original intention of Parliament. It has been stated to your Committee in evidence that the power has not been exercised.

Your Committee recommend that the Appropriation Bill, and the Appropriation Clause, should be printed and distributed in time for consideration, before the Bill passes through Committee of the House.

Your Committee will now proceed to consider whether the power of transfer, as given to the different Departments, is consistent with the due appropriation of the moneys voted by Parliament.

The Accounts of the Navy Department give to the House the best means of deciding this question. They were placed on the improved footing before the accounts of other Departments, and show the working of the system for a longer time.

Your Committee would call the special attention of the House to a Return contained in the Appendix. From this Return it appears that in the seven years from 1833 to 1839, both inclusive, the surplus on certain Votes employed in meeting the deficiencies on others, amounted to £504,673; in the next period of seven years to £784,848; in the third to £854,582; and in the last, viz., 1854 to 1860, both inclusive, to £3,055,094. These sums show the amount which, having been voted by

Parliament for certain services, has, since 1846, with Treasury sanction, been applied to others.

Your Committee are well aware that in a great Department, embracing the expenditure of the Naval Services all over the world, it cannot be expected that Estimates, however carefully framed, can always be found correct, or that the same accuracy would be possible in years of disturbance as in years of peace when the expenditure would be small. The last period, from 1854 to 1860, includes years of war in the Crimea and in China, and obvious reasons would justify important differences between the Estimate and the Expenditure.

A consideration of the excesses and surpluses on the particular Votes equally points out the necessity of some further check on the power of transfer.

On the Vote for wages there has been a constant surplus since 1849–50 with the exception of one year. On the Vote for stores there has been for the same period a deficiency of above £2,050,000 after deducting the surplus, amounting to a balance of more than £1,710,000 of surplus applicable to other Votes. The Vote for the Admiralty Office was exceeded for 19 years consecutively. In 1860–61 the estimate at length covered the expenditure.

Your Committee must not be supposed to point out the surpluses on the Votes for wages and works, as deserving of censure—far from it; and even with respect to the excesses on the Vote for stores, it must be remembered that there existed during those years Votes of Credit to which the Department might justly have looked for aid. The excess on the Admiralty Office continued for 19 years, a period including years of peace as well as of war. The Vote was for a service at home, and under the immediate eye of the Department, and apparently not difficult to estimate fairly. But admitting the necessity of taking ample Votes in the case of wages, and perhaps on other heads, the knowledge of the probability of a surplus on these Votes, and the power to transfer that surplus to meet the deficiency on others, appears to your Committee to encourage a laxity in the preparation of the Estimates. They cannot persuade themselves that if the Vote for the Admiralty Office had been on a separate Estimate, without the power of transfer, the expenditure would ever have been permitted to exceed the Vote for 19 years.

On the Ordnance services, in the years 1846–47 to 1855–56, both years inclusive, there was applied £441,860 from the surplus of Votes to meet the deficiency.

In the Army Department, during the same time, before the consolidation of the War Departments, there was applied £664,044.

Your Committee have also an account of the present War Office. This account includes the period for the year 1856–57 to 1860–61. During this time a sum of £2,303,258 has been transferred from surplus to meet the deficiencies, and thus, as in the case of the Navy, applied to services other than intended by Parliament. It is right also to mention that, as in the Navy accounts, it appears that the Vote for the Office expenditure of the Secretary for War, and the Commander in Chief, has been exceeded every year.

With regard, however, to the expenditure during the periods now referred to in the military departments, your Committee think it just to remark that during a portion of them the Russian War, the Indian Mutiny, or the hostilities in China, were going on, and the expenditure, while it was largely increased, could scarcely be estimated with the accuracy Parliament may expect to be observed in years of peace.

In the year 1860–61 the transfers in the Army and Navy services amounted to £962,655.

Your Committee do not wish to imply that the sums thus spent were not required for the public service, or that the transfer was not in strictness within the powers of the Government. But they conceive that the existence of the power facilitates the presentation of incorrect Estimates, and consequently leads to an application of money voted for one service to another, for which it was not appropiated by Parliament.

Your Committee have examined almost every witness who has come before them on the working of the present system. These witnesses have differed in their objections and the remedies they suggest, but with scarcely an exception disapprove of the power as at present existing.

Your Committee have given to the subject their most careful attention, and have unanimously come to the opinion that the power of transfer should be subjected to some further check.

On 30 March 1849, the House resolved, " That when a certain " amount of expenditure for a particular service has been determined " upon by Parliament, it is the bounden duty of the Department " which has that service under its charge and control to take care " that the expenditure does not exceed the amount placed at its " disposal for that purpose." (104 Com. J. 190, quoted in May's Parliamentary Practice, p. 448*.)

In preparing the annual Estimates, your Committee apprehend it is the duty of the respective Departments to frame, in conjunction with the Treasury, the proposed Vote required for each service at such amount as they may judge will cover the expenditure without reference to any expected surplus on any other Vote. In case, while Parliament is sitting, any unexpected circumstances should make an additional expenditure necessary to such extent as would satisfy the Department that the Vote will prove insufficient, it becomes their duty to communicate to the Treasury, and, having obtained their assent, to lay before the House a Supplementary Estimate, or if such circumstances should occur while Parliament is not sitting, to present a Supplementary Estimate upon the meeting of Parliament, and before the termination of the financial year.

There must, however, occur occasions when the position of foreign affairs might render the immediate application for a Supplementary Estimate injurious to the public interest; some, when the excesses might be of a trifling character, and many that could not be ascertained until the final settlement of the accounts of the year.

Provision must be made to meet such cases, and your Committee are of opinion that it is more advisable to leave some discretion to the Government by law, than to lay down rules so strict as to compel the Departments to exceed their legal powers on light occasions.

But the cases in which such power has been exercised should be brought before Parliament in a form which would require their attention and an expression of their opinion.

With these views your Committee have entered on the consideration of the plans which have come before them.

The most obvious arrangement would be to deprive the Government of all power of transfer, to surrender the surpluses to the Exchequer, and compel the Department to apply to Parliament for a Vote to meet the deficiencies.

But by this plan, all legal power of using the surplus to meet the deficiencies between the time when they occur and the subsequent grant will be taken away and the Department will have broken the law in all cases where they have exceeded the original Vote, even when done without their previous knowledge.

*P. 458 of the Twelfth Edition, 1917.

To meet this difficulty it has been proposed by Mr. Anderson, that all power of transfer should be taken away, and any deficiency should be met, not from the surpluses on other Votes, but by provisional advances from the Treasury Chest, to be repaid out of a subsequent Vote; and that a sum of £700,000 should be added to the Treasury Chest Fund, to enable it to meet such advances.

The plan of Mr. Anderson appears in the Appendix, together with Papers from the Chairman of the Audit Board, and from the Accountant General of the Navy, objecting to the proposal.

Your Committee have not adopted Mr. Anderson's plan.

In case an advance is required, no sufficient advantage appears in that advance being made from the Treasury Chest rather than from a sum formed of the surplus of Votes already included by Parliament in the aggregate grant for the Department. Your Committee also are not prepared to recommend an addition to the Treasury Chest.

On a full consideration of the many difficulties attending the question, your Committee recommend that the power of transfer from the surpluses to meet deficiencies should be continued; but that such transfers should be considered as temporary advances, and should require the subsequent sanction of a Vote of Parliament.

According to this proposal it will be the duty of the Department, when any unexpected expenditure shall become necessary, which will occasion an excess on a particular Vote, to apply to the Treasury and state in writing the reasons for such application. So again, when any expenditure has occurred, without the knowledge of the Department, which will cause an excess on the Vote, a statement in writing should be made to the Treasury as soon as it becomes known to the Department, with the reasons for such excess.

On receiving and considering these statements the Treasury will judge whether an application should be made to Parliament for a Supplementary Vote, or whether the additional expenditure may properly be met by an advance from the surplus; and in the latter case will then have the power to authorize in writing such transfer from the surplus as may be required. At the making up of the final account, copies of these applications and of the Treasury letters and warrants should be presented to the House.

A Vote would then be proposed to meet any deficiencies, and the surpluses would be surrendered to the Exchequer. By this arrangement, which your Committee submit to the judgment of the House, the Government will not be fettered by any rule injurious to the public service, the temporary power which they may exercise will have the sanction of law, and the House will have the transfers, that have been made brought before them ultimately in the shape of a Vote.

Treasury Minute, 27 January 1863, *H.C.* 52/1863.—*My Lords have under their consideration the new provisions of the Appropriation Act of the last Session* (25 *&* 26 *Vict. c.* 71, *s.* 26), *in regard to the authority under which expenditure is to be defrayed in the Naval and Military Departments in cases of exigency, for which no provision may have been made in the Appropriation Act.*

My Lords have also under consideration the Second Report of the Committee of Public Accounts, upon whose recommendations the above section (26*th*) *of the Appropriation Act was amended.*

My Lords read again their Minutes of 8 *September and* 30 *October* 1846, *in which regulations were laid down for the guidance of the Naval and Military Departments, in relation to expenditure for services unforseen and unprovided for.*

The New Appropriation Clause referred to does not confer on this Board the power, which was granted by a similar clause in former Appropriation Acts from 1846 *to* 1861, *of finally appropriating surpluses on some grants to cover deficiencies on others within the same department; but it merely empowers the Treasury to authorize the temporary use of surpluses to meet deficiencies, in order that such proceedings may be submitted for the sanction of Parliament, and that provision may be made for the deficiencies upon the several Votes for the said services in such manner as Parliament shall determine.*

My Lords consider that the intention of this enactment is to carry into effect the recommendation contained in the Second Report of the Committee of Public Accounts of last Session—that "a Vote would "then be proposed to meet any deficiencies, and the surpluses would "then be surrendered to the Exchequer."

To give effect to these provisions, the Act requires—

1st. That before incurring expenditure not provided for in the Votes, the Departments shall apply to this Board for authority to defray the same; and that in such applications they shall represent the circumstances which make it necessary to incur that additional expenditure, and the injury which the Public Service would sustain if the same were delayed until provision could be made for it by Parliament in the usual course.

2dly. As the Appropriation Act limits the power of this Board to the duty of authorizing temporary advances out of savings to be made on other Votes, within the same Department, and for the same year, it will be the duty of the Departments not only to inform my Lords as to the necessity for incurring the additional expenditure, but to satisfy them that the saving which they may be requested to authorize the application of has been or will be made.

It must always be borne in mind that, even in the case of emergent and unforeseen expenditure, the authority conferred on this Board by the Appropriation Act, does not empower them to exceed the grants of supply, inasmuch as the Act states "that the Commissioners of the "Treasury shall not authorize any expenditure which may cause an "excess upon the aggregate sums" stated in the Act.

It will be incumbent, therefore, on the Departments to bring under the timely notice of this Board any contemplated measures which may involve a liability to an excess over the aggregate grants, in order that the First Lord and Chancellor of the Exchequer may decide whether it be proper that such expenditure should be incurred on the responsibility of Her Majesty's Government in anticipation of a special Vote of Parliament.

3dly. If it should happen that the expenditure upon any of the grants for the year has exceeded the Votes, without the knowledge of the Departments, and that the amount of the excesses and the causes which have led to them have only become known to the Departments after the accounts from all the stations at home and abroad have been examined and posted in the books, it will be the duty of the respective Departments, with a view to satisfy the requirements of the Act, and to give to Parliament a full knowledge of the circumstances which have caused the excesses, to lay before this Board a full statement explanatory of the causes of the excess which may have arisen upon each Vote, in order that the same may be considered by Parliament, when application may be made for supplemental Votes to cover the deficiencies upon the original grants.

4thly. It only remains for my Lords to determine the form in which the statement of deficiencies on the grants for Naval and Military

Services shall be laid before the House of Commons, in order that Votes for such deficiencies may be obtained. My Lords consider that it will be necessary to exhibit to Parliament the expenditure under each of the subordinate heads of service into which the Votes are divided in the Departmental Books, contrasted with the sums estimated for each, and showing, in columns, the excess of estimate or of expenditure, as the case may be, under each subordinate head; against each head the causes of variation should be stated; and copies of the applications made to this Board for their sanction to defray expenditure not provided for in the Estimates, and copies of the replies of this Board, should be appended at the end of the statement applicable to each Vote. A form of such statement is annexed to this Minute. The example selected is taken from the Army Estimates, but will be equally applicable to those of the Navy.

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REPORT 1864. H.C. 494.

Treasury Memorandum, April 1865 (*Appendix to P.A.C. Report*, 1865, *p.* 149).

THE COMMITTEE of PUBLIC ACCOUNTS have considered the matters to them referred, and have agreed to the following Report:—

Statement of Ledger Balances.

5. . . . Your Committee think that the balance sheet showing the Ledger balances at the date when such account [*i.e., the statement of the savings and deficiencies upon the grants for Army Services*] was finally closed, should be attached to it.

The Committee stated their opinion, in paragraph 5, that a Statement of Ledger balances should be added to the annual statements of savings and deficiencies on the Army and Navy Grants. This addition has been made to the statements in question for the year ended 31 March 1864 presented to the House in the present Session.

Transfers between Votes, Navy and Army.

8. In accordance with the recommendation of the Second Report of your Committee of 1862, an important change was made in the language of the Appropriation Act of that year. Previously, the Navy and War Departments were respectively empowered, with the consent of Her Majesty, signified by the Commissioners of the Treasury, to defray an excess of Expenditure upon any one or more of the Votes for Navy or Army Services respectively, out of the saving upon any other Vote for such service. By the Appropriation Act of 1862* it was enacted, That—

" 23. The said aids and supplies provided as aforesaid shall not be " issued or applied to any use, intent, or purpose whatsoever, other than " the uses, intents, and purposes before mentioned, or for the other " payments, appropriation, or application directed to be made or satisfied " thereout by any Act or Acts, or any particular clause or clauses for " that purpose contained in any other Act or Acts of this Session of " Parliament.

" 24. The respective departments charged with the detailed appli- " cation of the sums granted by this Act for Navy and Army Services " shall confine the expenditure of their respective departments within

* The Committee quote from the Appropriation Act of 1863, but the wording is practically identical with that of sections 25 and 26 of the Act of 1862.

" the particular amounts appropriated to each of the separate Services " comprised in the sum of Ten million seven hundred thirty-six thou- " sand and thirty-two pounds granted by this Act for Naval Services; " and in the sum of Fifteen million sixty thousand two hundred and " thirty-seven pounds granted by this Act for Army Services: *Provided* " *always, that if a necessity shall arise for incurring expenditure not* " *provided for in the sums appropriated to Naval and Military Services* " *by this Act, and which it may be detrimental to the public service to* " *postpone until provision can be made for it by Parliament in the usual* " *course, the respective Departments shall forthwith make application* " *in writing to the Commissioners of Her Majesty's Treasury, for their* " *authority to defray temporarily such expenditure out of any surpluses* " *which may have been or which may be effected by the saving of* " *Expenditure upon Votes within the same department, and in such* " *applications the departments shall represent to the Commissioners of* " *the Treasury the circumstances which may render such additional* " *expenditure necessary; and thereupon it shall be lawful for the* " *said Commissioners to authorize the expenditure unprovided for as* " *aforesaid to be temporarily defrayed out of any surpluses which may* " *have been or which may be effected as aforesaid upon Votes within the* " *same department; and a statement showing all cases in which the* " *Naval and Military Departments shall have obtained the sanction of* " *the said Commissioners to any expenditure not provided for in the* " *respective Votes aforesaid, accompanied by copies of the represen-* " *tations made to them by the said departments, shall be laid before the* " *House of Commons not later than One month after the Accounts of* " *the Receipt and Expenditure for Navy and for Army Services for the* " *year shall respectively have been rendered to the Commissioners of* " *Audit, if Parliament be then sitting, and if not, then within One* " *week after Parliament shall be next assembled, in order that such* " *proceedings may be submitted for the sanction of Parliament, and* " *that provision may be made for the deficiencies upon the several Votes* " *for the said Services in such manner as Parliament shall determine.*"

9. Your Committee are informed, that the effect of this change has been very beneficial to the public service; and they are assured, that the great object of the alteration in the Appropriation Act has been accomplished. By the former clause, for which this was substituted, the Treasury were empowered to sanction the appropriation of the surpluses of one Vote for the payment of the excesses on the other. They, generally, did not hear of the necessity for their sanction, until the time for closing the account was at hand, and they had no opportunity of exercising any judgment upon it. Now, before any excess of expenditure is incurred, the Departments apply to the Treasury for their sanction, as soon as the necessity for it arises.

10. The Army Accounts, now under the consideration of your Committee, are the first that have been prepared and presented under this altered system. The Committee of 1862 recommended in their Second Report, that at the making up of the final account, copies of the applications of the Army and Navy Departments, to the Treasury, for authority to incur an expenditure, which would occasion an excess on any particular Vote, and of the Treasury Letter and Warrants, should be laid before the House. It appears, from the Accounts before your Committee, that this has been done as regards the Army Expenditure for 1862-63, and the Papers are appended to the new Account of Savings and Deficiencies. The total excess of expenditure amounted to £336,309 15*s.* 8*d.*, arising upon nine of the Votes, and the savings

on the other Votes amounted to £1,097,725 12*s*. By a letter of the Treasury to the War Department, dated 21 January 1864, the Lords Commissioners are "pleased to authorize the said sum of £336,309 15*s*. 8*d*. " to be included in the Account of Army Receipt and Expenditure for " 1862–63, prepared under the provisions of the Act 9 & 10 Vict. c. 92, " as a charge temporarily defrayed out of the said surplus grants, on " the understanding that the said deficiencies shall be submitted for the " directions of Parliament, in conformity with the instructions " contained in the Treasury Minute of 27 January 1863. When Parlia- " ment shall have passed the Votes required for making good the " said sum of £336,309 15*s*. 8*d*., my Lords will issue directions for " withdrawing the gross surplus of £1,097,725 12*s*. from the available " balance of Army grants in the Exchequer.

11. Your Committee, in their Second Report of 1862, recommended that such transfers should be considered as temporary advances, and should require the subsequent sanction of a Vote of the House of Commons.

12. No Vote has yet been submitted to the House of Commons in respect of the temporary advance now under consideration. Your Committee are of opinion that as soon as the Accounts, ascertaining the deficiencies and savings on the Votes for Army and Navy Services, have been laid before the House of Commons, no time should be lost in seeking the sanction of Parliament to the application of the savings to meet the deficiencies, which has been thus temporarily approved of by the Treasury.

13. Such a Vote, in the opinion of your Committee, ought to receive the most formal consideration and sanction of the House; and it appears to them, that a Vote in the form of a Resolution of a Committee of the whole House would be the proper mode of effecting this object, and of complying with the provisions of the Appropriation Act.

With respect to the question discussed in paragraphs 10 to 13 of the Report of the Committee, as to the form in which the sanction of the House of Commons should be given to expenditure incurred beyond the Votes of a past year, and which may have been temporarily defrayed out of savings upon other Votes within the same department for the same year, under the sanction of the Lords of the Treasury, by virtue of the authority vested in them by the Annual Appropriation Act, the sanction of an Act of Parliament has been considered necessary to give full authorization for the appropriation of savings to cover the deficiencies in question. The expenditure unprovided for in the year 1862–63 *has therefore been sanctioned by the 26th section of the Act* 27 *&* 28 *Vict. c.* 73.

Exchange of Land.

16. Your Committee have had under their consideration the circumstances relating to the sale of the battery at Brighton, which have been brought to their notice by the correspondence on the subject which is contained in the Account of Army Expenditure for 1862–63.

It appears, that there was a negotiation between the War Office and the Office of Woods and Forests, for the exchange of the ground in question at Brighton for an equivalent in value in land in Woolmer Forest, the latter being required for military purposes. The Surveyor of the Woods and Forests was employed on both sides, to fix the value of the battery at Brighton. Subsequently it appeared that a much higher sum, viz., £16,000, than the value fixed by the Surveyor, which was £9,000, could be obtained under special circumstances from other purchasers, and the battery was sold to them, the purchase money handed over to the Woods and Forests, and an equivalent addition made

to the land conveyed to the War Office in Woolmer Forest. This was, technically and substantially, not an exchange of land, but a sale of land by the War Office, and a subsequent purchase of land from the Woods and Forests.

17. The transaction would never have appeared in the Army Accounts at all, had it not been for the necessity of crediting the War Department with the interest of certain Exchequer Bills, in which the purchase money was temporarily invested. This credit brought the proceedings above mentioned under the notice of the Audit Board, who were of opinion, as your Committee also are, that the produce of this sale of land at Brighton ought to have been paid into the Exchequer as an extra receipt, and that, if it was requisite to make a purchase of land in Woolmer Forest, the proposal to do so should have been submitted in the regular way to the House of Commons.

The suggestion of the Committee as to the mode of accounting, in money, for exchanges of land between different Departments has been adopted. Only one case has, however, been brought under the notice of the Treasury since the suggestion of the Committee was made, and that case has been decided by the Treasury in accordance with the principle recommended.

SPECIAL REPORT, 1866. H.C. 113.

Exchequer and Audit Departments Bill.

THE COMMITTEE of PUBLIC ACCOUNTS, to whom the EXCHEQUER and AUDIT DEPARTMENTS BILL was referred:—HAVE considered the said Bill, and taken Evidence thereon, which they have agreed to Report to the House; and have gone through the Bill, and made Amendments thereunto; and have agreed to the following Special Report:

YOUR Committee recommend that in the event of the said Bill becoming law, it should be made a Standing Order of this Honourable House, that all Reports on Appropriation and Consolidated Fund Accounts, and the Treasury Minutes prescribed in schedule (B.) of the said Bill, be referred to the Committee of Public Accounts.

FIRST REPORT, 1867. H.C. 333.

Votes to be divided into Subheads.

YOUR Committee have had under their consideration the plan recommended by Mr. Vine and Mr. Foster (who have been appointed by the Treasury to consider the various questions of classification and arrangement arising from the application to the Civil Service Estimates of the principle of Appropriation Audit), for subdividing each Vote of the Estimates under subheads, agreeing with the divisions in the Departmental Ledgers; and they are of opinion that it will be desirable to adopt this recommendation both with reference to the Civil and Revenue Votes and to those for Army and Naval Services.

REPORT, 1868. H.C. 452.

Treasury Minute 18,673/68, 13 *December* 1868.*

Certificate as to Authority for Expenditure.

3. In 1867 the Committee of Public Accounts recommended that the respective Accountants General should, at the foot of the Appropriation Accounts of Army and Navy Expenditure, declare that no part of such expenditure has been incurred without authority superior to that of the Department, in cases where such superior authority is required by the regulations then in force. In the case of the War Department this certificate should be signed by the Accountant General and the Chief Auditor; and with respect to both Army and Navy Services, it should be qualified by the words " to the best of my knowledge and belief."

Let communications be addressed accordingly to the War Office and Admiralty.

Note.—The Public Accounts Committee of 1877 (para. 115) considered this certificate no longer necessary on the Army Account " since the adoption of the independent audit of authority " (see T.M. 20 March 1876 at pp. 56-63); it was however, revived in 1902–3, see P.A.C.3, 1903..2 at p. 455. For extension to other Departments see P.A.C. 1923. 84, at p. 670.

India.—Audit of Home Accounts.

7. It having been referred to your Committee to examine into and report upon the audited Home Accounts of the Government of India, and the arrangements under which such accounts are audited, they have examined on the subject Major-General Jameson, the present Auditor, and the Comptroller and Auditor General. Your Committee are not satisfied that, at present, any advantage would be gained by transferring to the Comptroller and Auditor General the business of auditing these accounts; but they are of opinion that the present arrangement is not free from objection, as it unites, in one officer, the duty of auditing the accounts of the Secretary of State (and, if necessary, of disallowing charges authorized by him), and the examination, on behalf of the Secretary of State, of accounts with and claims upon the principal departments of Government.

APPENDIX No. 1 (4) TO REPORT 1868.

Audit as to Treasury Authority.

TREASURY MINUTE, April 1868. My Lords have before them Mr. Ryan's letters of 25 February and 28 March last, conveying the opinion of the Comptroller and Auditor General upon the subject of the provisions of the 27th section of the Exchequer and Audit Departments Act, and requesting the instructions of the Treasury thereon. State in reply, that my Lords, in their Minute of 28 February, deferred issuing directions upon the subject dealt with in the 27th section of the Exchequer and Audit Departments Act until the arrangements connected with the Appropriation Accounts were in a more forward state; but that directions regarding these accounts have now been issued, and my Lords have taken under their consideration the question as to how far the expenditure included in these Appropriation Accounts should be supported by the direct authority of the Treasury.

It appears to my Lords that it would be beyond the functions of this Board to control the ordinary expenditure placed under the

* Printed at p. 829 of Civil Service and Revenue Departments Appropriation Accounts, 1875–76, H.C. 18, 1877.

charge of the several departments, within the limits of the sums set forth under the subheads of the several grants of Parliament, and that it is only in exceptional cases that the special sanction of the Treasury should be held to be necessary.

My Lords consider that such sanction should be required for any increase of establishment, of salary, or of cost of a service, or for any additional works or new services which have not been specially provided for in the grants of Parliament.

My Lords therefore desire that, in conducting the Appropriation Audit of the several Votes, the Comptroller and Auditor General will bring to their notice any excess of charge beyond the amount assigned to each subhead of such Votes, or any expenditure which, upon examination, may, in any of the several cases referred to above, appear to have been incurred without Treasury authority, in order that my Lords may determine whether they will sanction the admission of such unauthorized expenditure as a charge against the Parliamentary grant.

Add, that my Lords at the same time do not wish to limit the discretion of the Comptroller and Auditor General in reporting to this Board upon any item of expenditure which, in his opinion, should be the subject of special Treasury authority.

FIRST REPORT, 1869. H.C. 87.

Extra Remuneration.

THE COMMITTEE of PUBLIC ACCOUNTS have considered the matters to them referred, and have come to the following Resolution, which they have agreed to report to the House:—

That with reference to the Resolution of the Committee of 21 July last, "That where a Public Officer receives a grant or temporary "increase to his fixed salary in respect of special services, your Com- "mittee are of opinion that provision should be made accordingly in "connexion with the Vote upon which the fixed salary is charged," your Committee have arrived at the conclusion that the same should be applied to services rendered under the subhead of the Vote in which the fixed salary is charged, and that in all other cases the fact of any officer receiving a grant or temporary increase should be explained by foot-notes in the Estimate or Account.

SECOND REPORT, 1869. H.C. 87.

Votes of Credit.

Your Committee are of opinion that it would facilitate the control of Parliament over the Public Money, and tend to promote economy in the Public Expenditure, if in future the accounts relating to the ordinary services of the year were kept distinct from those relating to extraordinary services, for which provision is made by separate grants. Your Committee having been furnished with the accounts made out in this manner, submit them for the information of the House. . . .

THIRD REPORT, 1869. H.C. 303.

Void Money Orders.

8 . . . In the Post Office Accounts their attention has been called to the subject of void money orders, the money derived from which is stated to be at present applied to the insurance of the lives of

certain officers in the department, the payment of bad debts of postmasters, which their sureties cannot pay, and occasionally for reimbursing the public for losses on money orders in particular cases. Your Committee are agreed that these moneys had better be paid over as extra receipts.

Note.—The money derived from void money orders was brought to credit as Exchequer Extra Receipts from 1871–72, and has been appropriated in aid of the Post Office Vote since 1892–93.

FOURTH REPORT, 1869. H.C. 356.

India—Audit of Home Accounts.

Your Committee are glad to find that the Auditor of the India Office has been altogether relieved of the duties formerly imposed upon him of departmental Examiner of Accounts, and that he is now enabled to carry out an entirely independent audit. . . . .

FIRST REPORT, 1870. H.C. 301.

CIVIL SERVICES.

Form of Appropriation Accounts.

3. Your Committee, having had under consideration the form of accounts prescribed by the Treasury, are of opinion that the terms "Savings" and "Deficiencies," standing respectively at the head of the 4th and 5th columns of the account, are liable to be misunderstood, and that more appropriate phraseology may be employed in other parts of such form, and they recommend that the form of account given in the schedule which has been prepared at their instance be adopted in future.

Note.—This form was adopted from 1869–70 in pursuance of directions contained in Treasury Circular 16614 of 30 September 1870. Additional instructions providing for cases where extra receipts are appropriated in aid of Votes were issued by Treasury Circular 6791 of 26 April 1894, and directions for limiting, in certain conditions, the amount of receipts shown as appropriated in aid were given by Treasury Circular F.8211 of 23 January 1925.

Subdivisions of Subheads.

15. CLASS IV., VOTE 14.—In the second paragraph of the Comptroller and Auditor General's Report, he adverts to the fact that the classification of the expenditure under Subhead I. is not according to the 13 detailed heads. It does not appear to your Committee that the accountant was bound to render his account under more than the principal subheads mentioned in the Estimate; but the object of the Comptroller and Auditor General, which is in their judgment a proper one, would be attained if the Treasury were to require that more principal subheads should be shown upon the Estimate; there would then be consequently a greater subdivision in the account.

GENERAL OBSERVATIONS.

Presentation of Reports.

26. In concluding this Report, your Committee desire to advert to the fact that, under the provisions of the Exchequer and Audit Departments Act, 1866, the Reports of the Comptroller and Auditor General are submitted to the House through the medium of the Treasury. They are of opinion that this officer would have a higher and more independent

position in the eye of the several Departments of the State, if his Reports were presented by him directly to the House . . .

Note.—From 1869–70 the Treasury discontinued the practice of appending Minutes to the Comptroller and Auditor General's Reports on Appropriation Accounts.

SECOND REPORT, 1870. H.C. 358.

Navy Services.

Date of rendering Account.

7. Your Committee are of opinion that the two accounts that are now, by Act of Parliament, required to be rendered, namely, the Statement of Savings and Deficiencies and the Appropriation Account, might be amalgamated into one account, in which should be given those detailed explanations and variations which are now given in the first-mentioned account, and that such account might be rendered by the 31st December in each year, and the Treasury concur in this view.

This would allow time for the Account to be reported upon by the Comptroller and Auditor General by the 31st January next ensuing.

Note.—These recommendations have been acted on since 1870–71.

Consolidated Fund.

Dividends on Public Debt.

15. They understand that, in compliance with their recommendation last year, the Treasury have given directions that the examination of the dividend accounts of the Bank of England by the Comptroller and Auditor General shall be discontinued.

General Observations.

18. Your Committee are of opinion that their labours would be far more valuable if the examination of the Appropriation Accounts could be concluded by them in each year before the time arrives for asking Parliament to make good, by Votes in Supply, the Deficiencies found to have arisen upon any of the Grants of the previous financial year, or to approve, by Resolution, of the sanction given by the Treasury to the appropriation of Savings under Votes for Army and Navy Services, to cover Deficiencies on other Votes.

19. Your Committee are informed by the Secretary to the Treasury, that no future difficulty need be apprehended in this respect if the Committee of Public Accounts is nominated as soon as possible after the meeting of Parliament in the spring.

20. The recommendations made in their First Report as to the Form of Accounts for the Civil Services will apply, *mutatis mutandis*, to the Army and Navy Appropriation Accounts. (*See note to P.A.C.* 1.1870.3, *at p.* 22.)

FIRST REPORT, 1871. H.C. 102.

Treasury Minute, 13 *May* 1871. *H.C.* 294.

Class I.—Vote 19.

Abandonment of Claims.

2. With reference to the observations of the Comptroller and Auditor General upon this Vote, it appears to your Committee that it would be

desirable that the Treasury should prepare a Minute to be laid before Parliament as to the conditions under which claims for money due to the public may be abandoned by a Department, though in the particular case which elicited those observations it was proved to your Committee that the abandonment in question was that of a claim originally made in error.

My Lords consider that, as the circumstances under which it may be proposed to relinquish a claim to money due to the public may be of very varied character, it is expedient that each case should be brought under the special cognizance of this Board, in order that it may be dealt with on its own merits.

Let a circular be addressed to the various Departments of the Civil Service, stating that the attention of my Lords having been called to the circumstances of the abandonment, without their authority, of the claim to a sum which had been brought to credit as receivable on account of the public, they desire that in future any case in which it may be proposed to relinquish a claim to sums due to the public, either in respect of cash or stores, may be brought under the special notice of this Board.

With regard to claims to money due to the public in connexion with Army and Navy Services, my Lords observe that the only information which is at present furnished to them on the subject is the statement of the amount of irrecoverable balances and debts transmitted to them annually, with the application for authority to defray the excesses out of surpluses.

In the case of the Navy, these irrecoverable balances are stated with some detail (though not complete) in the Appropriation Account (see p. 97), but in that of the Army, the total amount only is inserted (see pp. 5, 82, and 140).

My Lords consider that, in view of the recommendation of the Committee, it is desirable that the circumstances relating to each case, in which it is proposed to abandon a claim to sums due to the public in respect of cash or stores connected with Army and Navy Services, should be brought to their notice in a similar manner to that which is directed by this Minute with regard to claims connected with the Civil Services.

THIRD REPORT, 1871. H.C. 162.

Civil Services.

Class III., Vote 36.—Court of Chancery, England.

Treasury Control.

11. Your Committee are unable to leave this subject without expressing an opinion that now that the whole expenditure of the establishment of the Courts of Law (other than that charged upon the Consolidated Fund), is taken upon the Estimates, it is desirable that the Treasury should be a party to all alterations of salary or increase of office expenses, and they recommend that the Treasury should institute an inquiry into the operation of the Acts of Parliament under which the expenses of Law Courts in any part of the United Kingdom are to be provided by Parliament, with a view to ascertain what further legislation is required to give to the Treasury the proper control.

Note.—Treasury control was secured by the Supreme Court of Judicature Act, 1873, 36 & 37 Vict. c. 66; see also 42 & 43 Vict. c. 78, s. 15.

INLAND REVENUE.

Poundage Allowance for collection of Income Tax: accumulation at the War Office.

16. They are of opinion that this accumulation should now be surrendered to the Exchequer, and they recommend that the arrangements for remunerating persons in public departments for income tax duties be reconsidered by the Treasury.* They consider that whenever any public money, as in the case under consideration, is received by any person in a public department beyond the salary of his office, a statement of the fact should appear in the Estimates.

FOURTH REPORT, 1871. H.C. 223.

CONSOLIDATED FUND ACCOUNT.

Sinking Fund.

1. Upon the examination of this Account the attention of your Committee was called to an apparent inconsistency between the 12th and 16th sections of "The Exchequer and Audit Departments Act, 1866," and generally to the operation of the Sinking Fund under the present system of collecting the taxes.

2. Under the 12th section of the Act, the Banks of England and Ireland may, in any quarter, make advances, to be placed to the credit of the Exchequer Accounts at the said banks under certain conditions therein named, to meet any deficiency of the Income of the Consolidated Fund to defray the charge upon it for the preceding quarter, which may have been certified by the Comptroller and Auditor General; and it is therein provided "that the principal and interest of all such advances *shall be paid out of the growing produce of the Consolidated Fund,*" in the quarter in which the advance has been made; but under the 16th section the National Debt Commissioners may apply the sum issued to them by the Treasury in any quarter, as one-fourth part of the surplus of Income above Expenditure of the United Kingdom in the 12 months ending with the quarter immediately preceding, in (amongst other purposes) repaying to the Bank of England, or to the Bank of Ireland, any advances made by them under the provisions of the Act towards supplying the deficiency of the Consolidated Fund in the preceding quarter.

3. Several ways of reconciling this apparent inconsistency were put before your Committee, amongst which was a suggestion by Sir William Anderson, that the 12th section may be read as providing that the advances in question, if they are existing at the close of the quarter, not having been otherwise liquidated, should be paid out of the Consolidated Fund.

4. It appears to your Committee that when opportunity arises for the amendment of the Act, the language of these provisions should have attention, with a view to removing all doubts upon the question.

5. The matter has acquired increased importance since the new system of collecting some of the principal taxes in one quarter of the year has come into effect, and it must be viewed with reference to the whole principle upon which the operation of the Sinking Fund is based.

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* See P.A.C. 1.1873.81 at page 36.

6. The provisions with respect to this fund, which are now contained in the 16th section of the Act above referred to, are copied from 10 Geo. 4, c. 27, and they proceed, apparently, upon the assumption that the income of the year and the expenditure of the year will be distributed pretty equally over the four quarters, and that the aggregate surpluses (if any) upon accounts taken for the 12 months ending with each quarter, will approximately represent the surplus of the whole year in which those quarters fall.

7. This equal distribution of income and expenditure has never been quite realized, but under the new system of collecting taxes, there is likely to be a very considerable disturbance of the equality, such as it was, whenever the rate of any duty or tax, so collected, is materially raised or lowered; and such a disturbance did, in fact, take place during the year following the commencement of the new system, under which a large excess of receipt over issue occurred in one quarter. The result of such disturbance will always be that the actual surplus of the year and the Sinking Fund surplus of the year will be represented by very different figures.

8. There being no counteraction by which the excess of actual issue over receipts in three quarters of the year can be set off against the excess of receipt in one, serious difficulty might occasionally arise were it not that the Government has the power of calling into operation that part of the 16th section of the Act to which reference has been made, and of applying to the repayment of deficiency advances surplus which has risen upon the account taken for the purpose of the Sinking Fund, and your Committee are of opinion that under present circumstances it is indispensable that the Government should possess this power.

9. Your Committee entertain considerable doubt whether it is fully understood by the House and the public that when the Commissioners for the Reduction of the National Debt publish in the " Gazette " the sum which will be applied for that purpose in the ensuing quarter, the term " National Debt " is not to be taken in the popular sense, namely, as meaning only " the permanent debt of the nation," but must be interpreted as including such temporary advances as may have been made by the Bank to meet deficiencies.

10. They recommend, therefore, that whenever in future any Sinking Fund surplus is, under existing Acts, applied to repay deficiency advances, the application should be made under the authority of a Treasury Minute or other formal document to be published in the " Gazette " and laid before Parliament.

11. Your Committee, however, upon a review of the whole subject, are of opinion that the time has now come when all the provisions applicable to the Sinking Fund might be advantageously revised.

Note.—The 16th section of the Exchequer and Audit Departments Act, 1866, was repealed, and new provisions with regard to Sinking Funds were enacted by the Sinking Fund Act, 1875, 38 & 39 Vict. c. 45.

FIFTH REPORT, 1871. H.C. 321.

Your Committee have had before them the Finance Accounts for the year ending 31 March 1870, and have examined Mr. Foster in reference thereto.

The form of these Accounts were settled so long ago as the year 1822, by a Committee of this House, and it appears now desirable to introduce into them various alterations and modifications.

Mr. Foster has laid before the Committee his views and proposals on this subject, which with slight modifications, assented to by him, have received their sanction.

The next issue of the Finance Accounts will, accordingly, be laid upon the Table in an amended form.

SECOND REPORT, 1872. H.C. 198.

Treasury Minutes, 5 and 14 August 1872.

ARMY SERVICES.

Vote of Credit.

3. . . . . A Vote of Credit is granted for a particular purpose and not for a given year; so long as the Vote is open the Estimates of any year may not contain the whole of the expenditure which the departments of the Government are at liberty to incur in that year. Your Committee think it worthy of consideration whether it would not be practicable and advisable that Votes of Credit should be taken for the current financial year only. . . .

T.M. 5 August 1872. *My Lords refer to their Minute of 24 November* 1870, *in which (7th page) they stated that it would be necessary in the case of Votes of Credit to omit the ordinary limitation of period so that any portion of such vote, which may remain unissued or unexpended at the close of the financial year may be available in diminution of any similar demand upon Parliament for the same purposes in a succeeding year.*

My Lords are of opinion, upon the further consideration of this subject, that there is no insuperable objection to the adoption of the course suggested by the Committee and they desire that the recommendation may be noted in the Department for consideration with reference to any subsequent occasion that may arise for a vote of credit.

Sale and Exchange of Stores.

5. Your Committee agree with the Comptroller and Auditor General in the criticism which he makes in the 3rd paragraph of his Report upon the exchange of bricks for blasting powder therein mentioned, and are of opinion that the former should have been sold, and the proceeds paid into the Exchequer.

They likewise agree with him, in the opinion stated in the 4th and 5th paragraphs, that the proceeds of the sale of the steamer "Unicorn," in Nova Scotia, and of certain stores at stations from whence troops have been withdrawn, should have been paid into the Exchequer, instead of being appropriated in aid of expenditure.

The Accountant to the War Office acquiesces in this view, and agrees that the rule of thus treating receipts of this character should be rigorously applied in future.

NAVY SERVICES.

Date of Charge.

10. Your Committee agree with the Comptroller and Auditor General in the opinion he expresses, that two sums of £1,423 1*s.* 4*d.*

and £1,000 respectively, for which bills were drawn on 31 March 1871, but in respect of which no final payment was actually made until several months of the subsequent financial year had elapsed, are not properly chargeable against the Grants for 1870–71 . . . .

T.M. 5 August 1872. *Transmit copy of paragraph* 10 *to the Admiralty and request that the two sums . . . referred to . . . may be charged against the Grants for* 1871–72.

CIVIL SERVICES.

Public Accounts Commissioners; Accounting Officers.

50. Three questions of importance for the future arise upon this case:—

First. It would seem essential that the functions of the Public Accounts Commissioners, if they are to be continued as agents of the Treasury, should be more clearly defined for the information and guidance of the various departments. Originally constituted under the Exchequer and Audit Act for the purpose of preparing new forms of accounts, they have had, incidentally to that office, further duties assigned to them, which may have the effect of misleading accountants and heads of departments as to their own responsibility. By a recent Treasury Minute they have been still further empowered to call for and verify balances, a new and most important function, which might well have been assigned by law to the Comptroller and Auditor General. In the absence, however, of any provision of law to that effect, it cannot be doubted that it is within the prescriptive authority of the Treasury over the public finances to provide that such a power shall be vested in some public officers, but the exercise of this power will render the above recommendations of your Committee still more important.

Secondly. It must be admitted that the appointment of an officer other than a skilled accountant to sign and render the Appropriation Account under the Act, cannot carry with it any obligation upon the officer appointed to be answerable for the correctness of the book-keeping so far as that involves knowledge of a technical character, and it would therefore be desirable that the appointment in question should be accompanied by some formal notice or warning as to the extent of responsibility thereby conveyed, and as to the additional duty imposed. A Treasury Minute of 7 May 1872* proposes to effect this object, but it will be seen (*see* Appendix) that there runs through it the same ambiguity in the use of the term "accountant," which your Committee think it essential to clear up.

Thirdly. It is clear that the appointment of officers to perform this function under the Act, by the Treasury, has proceeded on no fixed principle. Mr. Cole has pointed out with great justice, that some of these accounts are rendered by a Cabinet Minister, or other political chief of the office, some by the chief clerk or secretary, some by the chief permanent official, and some by the accountant himself, whether a superior or subordinate officer. The Comptroller and Auditor General is of opinion that there is a clear principle laid down in the 22nd clause of the Exchequer and Audit Act, viz., that the administrator of the vote is the only party upon whom the duty of rendering the account is imposed. But the proviso at the end of the same clause seems to your Committee scarcely compatible with this doctrine, and the practice of the last five years has certainly been against it. Whatever view may be finally adopted, it is impossible that such an anomalous state of things can be permitted to continue, and your

* The reference intended is to Treasury Circular of 5 April 1872 appended to Second Report 1872, H.C. 198, p. 128.

Committee recommend that the whole of these appointments be reconsidered and placed upon a uniform footing in future.

T.M. 14 *August* 1872.* *My Lords observe that three questions are here raised by the Committee upon the following subjects:—*

(1) *The functions of the Public Accounts Commissioners.*

(2) *The responsibilities and duties of officers appointed to render Appropriation Accounts.*

(3) *The principle upon which such officers should be appointed.*

I. Upon the first of these questions the Committee observe that "it "would seem essential, if the Public Accounts Commissioners are to be "continued as Agents of the Treasury, that their functions should be "more clearly defined for the information and guidance of the various "departments," and they consider that the duties which have been assigned to them by this department, subsequently to their original appointment, may "have the effect of misleading accountants and heads "of departments."

The Committee appear to have been led to entertain this apprehension in consequence of the plea, or (as they describe it) "the plausible "excuse" urged by the Secretary of the Science and Art Department, that the visits of the Public Accounts Commissioners and their inspections of the books had relieved him from the necessity of looking after the accounts.

My Lords are not aware that the exercise of the duties of the Public Accounts Commissioners has led to misapprehension in the case of any other department by which Appropriation Accounts are rendered. They believe, on the contrary, that the assistance afforded by the Commissioners has been gladly received by every department in the public service, and that in no case, the Science and Art Department excepted, has their occasional presence for a special purpose been misconstrued.

At the same time, my Lords concur with the Public Accounts Committee in thinking that there are reasons which make it desirable that the position of the Public Accounts Commissioners should be reconsidered.

The 23rd clause of the Exchequer and Audit Act directs that "a "plan of account books and accounts adapted to the requirements of "each service, in order to exhibit in a convenient form the whole of the "receipts and payments in respect of each vote, shall be designed under "the superintendence of the Treasury."

The Commissioners of Public Accounts were appointed for the especial purpose of preparing these accounts, and of watching for a time their operation in order to assist and instruct the book-keepers to whom the detail work would be entrusted.

The clause provides, further, that Her Majesty may, from time to time, by Order in Council, prescribe the manner in which each department of the public service shall keep its accounts.

Effect has not yet been given to this proviso, but the new system of account has now been sufficiently tried in practice to justify my Lords in giving directions, by a separate Minute, for the preparation of an Order in Council† in accordance with the terms of the clause. The Order in Council will mark the termination of the duties for which the Public Accounts Commissioners were originally constituted, and their powers in that capacity will consequently be revoked.

My Lords do not, however, propose on that ground to dispense altogether with their services.

* Appendix to P.A.C. 1. 1878, H.C. 110, p. 78.

† *See* Order in Council 16 January 1878, printed in Appendix to First Report 1878, H.C. 110, p. 78.

It must be borne in mind that uniformity of account must not only be established, but maintained, and that it cannot be maintained unless the system of account be subject to a certain amount of revision and inspection; additions, transfers, or changes of duty connected with the accounts are constantly occurring in the public service; new departments spring up; old ones are modified so as to render new regulations necessary; and moreover, it is necessary to guard against unauthorized changes, as well as against laxity and neglect.

In order to provide the supervision thus rendered necessary, my Lords propose to employ the officers who have hitherto been known as the Public Accounts Commissioners, but will henceforth be designated as "Treasury Officers of Accounts." They will act generally under the instructions of this Board, and they will be ready, when called upon, to assist and advise the officers who render the Appropriation Accounts upon all technical points connected with book-keeping and accounts. Whenever they visit a department, they will report the object of their visit to the permanent head of the office, and will work in concert with him. It will further be clearly understood that they do not interfere with the administration of the department, that they are in no way responsible for the accuracy of the Departmental Accounts, and that their functions in no wise interfere with the powers of the Comptroller and Auditor General over the accounts when they have once passed into his hands.

A new function was not long ago assigned to the Public Accounts Commissioners, viz., that of verifying cash balances in the custody of departments. This regulation subjects officers holding public money to an efficient, because uncertain, check, inasmuch as they may be required at any moment to produce the balance with which they are charged. The Committee express a doubt whether this function of verification might not well have been assigned by law to the Comptroller and Auditor General.

It appears, however, to my Lords, that such a step would have been inexpedient. It is most important that the distinction between administration and audit should be clearly defined. The auditor tests results, and, when once the machinery of accounting has been settled, he should wait for the result before he interferes. When the time for his interference arrives, that is to say, as soon as the accounts are delivered to him, he should have uncontrolled power to make any inquiry that he may consider necessary, but he should be in no sense accessory to the facts of which he will be the judge.

On these grounds my Lords propose to retain in their own hands the power of verifying balances at any given moment, and they will entrust that power, under their directions, to the Treasury Officers of Accounts mentioned above. It must, however, be distinctly understood that the exercise of this power will not in the slightest degree relieve departmental authorities from their responsibilities in respect of the regulation and verification of the balances in their charge.

II. The Committee observe that it would be desirable that the appointment of officers to sign and render Appropriation Accounts should be accompanied by some formal notice or warning as to the extent of the responsibility thereby conveyed, and as to the additional duty imposed, and they call attention to an apparent ambiguity in the use of the term "Accountant" in the Treasury Circular of 5 April 1872 (quoted by the Committee as a Minute of 7 May 1872).

This term is no doubt commonly held to describe persons performing duties of a technical character in connexion with book-keeping and

accounts, and possessing qualifications of a special kind; and my Lords admit that some other title is needed to distinguish public officers whose high and responsible position in their respective departments is the principal reason of their appointment to render Appropriation Accounts.

My Lords consider, therefore, that some term should be employed which shall clearly denote the relation in which such last-mentioned officers stand towards Parliament as responsible for the financial administration of the grant for the services under the control of their departments, while it should at the same time avoid ascribing to them a character which properly belongs only to persons possessing a technical knowledge of book-keeping and accounts.

It appears to my Lords that the designation of "Accounting Officer" will sufficiently meet both of these requirements, and they are accordingly pleased to direct that the persons charged by them with the duty of rendering Appropriation Accounts on behalf of their respective departments shall be thus entitled, and that such designation shall be appended by them to their signature at the foot of the Appropriation Accounts. Sub-accountants will, as a matter of consequence, be styled "Sub-accounting Officers."

In order further to satisfy the requirements of the Committee, and to remove any possibility of misapprehension, my Lords think it desirable that the term "Accountant" should no longer be applied to the officers entrusted in each department with the technical business of its accounts. They propose, therefore, to alter their designation to that of "Clerk in charge of the Accounts."

With regard to the extent of the responsibility of the duty imposed upon "Accounting Officers," my Lords refer to the above-mentioned circular letter addressed by the directions to the various departments of the Civil Service on 5 April last (4683), containing instructions to officers accounting for Parliamentary grants.

Those instructions related—

(1) *To the manner in which imprests should be made to sub-accountants.*

(2) *To the amount of the balances which ought to be kept in hand; and,*

(3) *To the payment of extra receipts to the Exchequer.*

*My Lords will re-issue with this Minute so much of the circular in question as is of a permanent nature, with corrections in order to remove the doubt raised upon it by the Committee of Public Accounts.**

They are glad to observe and to express their sense of the readiness with which the officers rendering Appropriation Accounts on behalf of their respective departments have generally undertaken that duty, and the satisfactory manner in which (as the Committee remark in the 12th paragraph of their Report), they have generally complied with the requirements of the Exchequer and Audit Department under the Act.

My Lords take advantage of this opportunity to repeat, for the information of the various departments of the Civil Service, the observations contained in the letter addressed by their directions to the Vice-President of the Committee of Council on Education on 14 June last, which were as follows:—

"The Exchequer and Audit Act (Section 22) directs that the department charged with the expenditure of a Vote shall prepare the Appropriation Account of such Vote.

"For that purpose, as my Lords read the proviso contained in the section, the department is represented by an officer named by this Board. He signs the Appropriation Account, and thereby makes

* For copy of revised circular see First Report P.A.C. 1873, H.C. 110, p. 77.

himself responsible for its correctness. This officer is the person whom Parliament and the Treasury regard as primarily responsible for the balance in the custody of the department, although he himself may not hold one farthing of it. In respect of him, every person having charge of any portion of the money issued to, or received on behalf of, the department, is simply in the position of a sub-accounting officer.

" It cannot be too distinctly announced that responsibility for the proper conduct of financial business cannot be delegated to the subordinate officers who may be placed in charge of the Departmental Accounts. The signature appended to the Appropriation Account would be otherwise an idle form, calculated only to mislead Parliament.

" My Lords have already pointed out, in their circular of 5 April last, that technical knowledge of accounts is not necessary to enable the representative of the department, as above described, to discharge himself of the responsibility which his signature implies.

" But in order to secure efficient financial administration throughout the service, it is above all things desirable that there should be hearty co-operation between the departments and this Board. My Lords, therefore, trust that the representative officer in question will communicate freely with the Public Accounts Commissioners." (or, as it will be henceforth, with the Treasury Officers of Accounts), " who " have instructions to render, on behalf of their Lordships, all assistance " in their power."

My Lords expect that accounting officers will take precautions to secure the recovery and bringing to account at proper times of all extra or other receipts connected with the Votes under their control.

They wish it to be understood that it is incumbent upon such officers, before making or allowing payments, to satisfy themselves, by means of statements duly certified by the officers entrusted with the detailed duties of the account, as to the correctness and propriety of the transactions. Forms of statement for this purpose will be prepared and furnished to them hereafter.

If they can show that they have not acted except on such statements, that they have not failed in a due exercise of their own common sense and administrative experience, and that in any case of serious doubt or difficulty they have consulted the officers deputed by this Board for the purpose, they will be considered to have discharged themselves of their responsibility.

III. My Lords now turn to the consideration of the third question raised by the Committee, viz., " the principle upon which the appoint- " ment of officers to render Appropriation Accounts (or, as my Lords " propose henceforth to call them, ' accounting officers ') should " proceed."

The Committee advert to the apparent want of system which has hitherto prevailed, and they recommend that the whole of these appointments should be reconsidered and placed upon an uniform footing in future.

My Lords admit that hitherto no uniform system has been prescribed; but this as it appears to them, was inevitable.

The Exchequer and Audit Act provided for the reorganization in the broadest sense of the financial administration of the Civil Departments. Its effect has been to introduce an obedience to regulation and a responsibility such as were not previously known.

The first step which the Treasury had to take in order to insure the attainment of this result was the revision of the book-keeping of the various departments, and the preparation, in accordance with the 23rd section of the Act, of a plan of account books and accounts adapted to the requirements of each service.

The attention of this Board was accordingly concentrated upon this step as an indispensable measure, and the result has been the establishment of a system of accounts which the Committee of Public Accounts has, on more than one occasion, pronounced satisfactory. My Lords are far from thinking that no imperfections remain to be remedied; there will be time for this supplementary work now that the departments have overcome the chief of the difficulties which invariably arise when numerous and independent departments are required to learn new duties, to undertake greater responsibilities, and to submit to more stringent control.

It will be remembered that the Exchequer and Audit Act, which became law on 2 June 1866, was intended to come into operation on 1 April 1867. The amount of labour, however, connected with the entire remodelling of the Estimates and Accounts of the Civil Service, and to some extent of the Military and Naval Services, and the arrangements necessary to reduce them into working order proved so great, that it was quite impossible to bring the Act into full operation at the prescribed date. It was, indeed, only on 1 April 1868 that every branch of the Imperial service became actually subject to its provisions; and for a long time subsequent to that date the Public Accounts Commissioners were continuously employed in working out the balances which would form the basis of the audit ordered to commence as from the date above mentioned.

My Lords could not ascertain all the conditions which were essential to the complete development of the Act until these preliminary labours had been completed, and the new system had undergone fair trial.

They did not think it necessary to insist at once upon exercising in all cases the power conferred upon them by the 22nd Clause of the Exchequer and Audit Act; and in order to facilitate the working of the Act, they left it generally to the departments to make arrangements for the rendering of the Appropriation Account without any special directions with regard to the person who should be appointed to sign the same. In some cases, indeed, when considerable additional labour and consequent alteration of duties were necessary, they designated a particular officer whom they judged to be primâ facie *best qualified, by the nature of his duties and the responsibility of his official position, to discharge the functions of rendering the account.*

It was not, however, intended that the arrangements then made or allowed by my Lords should be of more than a provisional character, and my Lords foresaw that it would be necessary and practicable before long to revise them with the view of adopting a more uniform and permanent system.

Four years have now elapsed since the Act came into operation, the accounts of the various departments are kept in a satisfactory manner, and my Lords are of opinion that sufficient experience has been gained to enable them to state the conditions which are henceforth to determine the selection of officers for the duty in question, and that the recommendation of the Committee may therefore be carried into effect without delay.

In some instances the accounts have hitherto been rendered by the Parliamentary chiefs of departments, but my Lords do not consider that the continuance of that practice would be expedient. The temporary character of their tenure of office, and the burden of their Parliamentary in addition to their strictly executive duties, unfit them, in the opinion of my Lords, for a real and satisfactory performance of the duties connected with the rendering of the Appropriation Accounts.

In stating this view, my Lords do not mean to express an opinion upon the question whether constitutional usage requires in this instance the signature of a Minister. Their view is, that such a signature should not stand alone, or in conjunction only with that of a mere subordinate.

It cannot be doubted that the officer entrusted with the duty should occupy a sufficient standing to enable him not only to exercise a direct supervision and control over the persons executing the detailed business of account and book-keeping, but also to influence the working of his department in all those respects which affect the method of its receipts or expenditure. He must also be qualified to represent his department before the Parliamentary Committee of Public Accounts.

These conditions are satisfied in the permanent chiefs of the various departments. They are responsible for the general conduct and for the discipline of their departments. They have the best means of acquiring a personal knowledge of the staff placed under their orders, and their functions would be logically incomplete if they were not held responsible for the due discharge of financial as of other business transacted in their departments.

My Lords are therefore prepared to lay down the rule that, in the exercise of the powers conferred upon them by the Exchequer and Audit Act, they will nominate, whenever it is practicable, the permanent heads of departments to render the Appropriation Accounts of grants for the services under their control.

As, however, there may be reasons for making, in some instances, exceptions to this rule, my Lords will not issue final directions until an opportunity has been afforded to the departments to express an opinion upon the proposal, and they will be prepared to give their careful consideration to any representation which may be made to them.

They trust at the same time that it may be borne in mind that a permanent arrangement is now to be made, and that such an arrangement must secure a reasonable but sufficient responsibility on the part of heads of departments for financial administration.

Extract from T.M. 20 December 1873.—My Lords have before them the replies which have been received from the various departments of the Civil Service to the letter from this Board of 12 October 1872, transmitting copy of the Treasury Minute of 14 August 1872, relating to Appropriation Accounts, and inviting an expression of opinion upon the proposal of my Lords to nominate, whenever practicable, the permanent heads of departments to render the accounts of grants for services under their control.*

The views of my Lords, as contained in the above-mentioned Minute, were that such officers were the persons best fitted to undertake the duty in question, from their high position, their knowledge of the details of the business of their respective departments, and their continuity of tenure of office, as contrasted with that of the Parliamentary chiefs, which is liable to frequent change.

My Lords are, however, aware that in some cases, as, for instance, in the offices of Secretaries of State, and in departments presided over by Boards, the appointment of the chief permanent officers would not be calculated to insure that real responsibility for financial administration, with the utmost official convenience, which it is their desire to attain in the arrangements which are now to be made.

The desired result will be attained, as my Lords believe, in the limited number of cases to which the foregoing remarks apply, by the appointment of the salaried person holding the next highest position to

* Appended to P.A.C. Report 1874, H.C. 242, p. 125.

the permanent head, with the exception only of those departments in which officers of high standing, and performing duties of a strictly financial character, are included.

In the nomination of "Accounting Officers," as hereinafter mentioned, my Lords wish it to be clearly understood that while their selection is guided, as before stated, by the object of combining real responsibility with administrative convenience, they on no account intend to relieve the permanent heads of those departments in which they may not be appointed to undertake the duties in question, from their liability for the proper conduct of the financial, as of all other business, under their control.

FIRST REPORT, 1873. H.C. 110.

NAVY SERVICES.

Refunds of Overpayments.

4. (1) It is agreed that refunds of payments made and charged to Votes of previous years shall in future be paid into the Exchequer, and no longer credited to the Votes; so that the practice will be uniform in that respect throughout the whole of the public service.*

ARMY SERVICES.

Payments for Stores not Delivered.

7. (2) Certain payments . . . for stores not delivered, have been, in accordance with practice, treated by the Comptroller and Auditor General as imprests, and not final payments, which could be charged in the account for 1871–72. He therefore recommends that they should be disallowed and charged to the following year. Your Committee agree in that view . . . On consideration of all the circumstances, your Committee are satisfied that no practical inconvenience, such as is anticipated by the War Office, need arise under this decision. (See Treasury Letter, No. 12, 7 December 1872, appended to the Comptroller and Auditor General's Report.)

Extract from T.L. 7 December 1872.—With regard to all building transactions, my Lords apprehend that there can be no difficulty in making payments which may be considered as final payments, in respect of work duly certified to have been performed in accordance with the terms of the contract.

In the case of contracts for the supply of great guns or small arms, when it is to be presumed the contractor has to enter into sub-contracts for the supply of the variety of articles which are necessary to enable him to fulfil his contract, there would not seem much difficulty in making such provision in the contracts, so as to allow of part payments being made, upon proper certificates that he has provided himself with such articles, although he may not be able to complete his contract at the specified period, and on full security being given for repayment of such payments in part, in the event of the contract not being completed.

My Lords do not apprehend that there would be any objection on the part of the Auditor General to look upon such advances as final payments.

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* Now credited as "Appropriations in Aid" of Votes to which that system has been applied.

CIVIL SERVICES.

CLASS II., VOTE 20.—PAYMASTER GENERAL'S DEPARTMENT.

Collection of Income Tax.

31. The question of remunerating gentlemen in this office for their services in collecting income tax has again been raised by the Comptroller and Auditor General. The subject has, however, since the date of his letter, been made the subject of special legislation (see 35 & 36 Vict. c. 82). In the Appendix [No. 3.] to this Report will be found Treasury Regulations which have been framed and issued on this subject in accordance with the provisions of this Act.

SECOND REPORT, 1873. H.C. 290.

Treasury Minute, 31 December 1873.*

TELEGRAPH CAPITAL ACCOUNT.

Irregular Use of Cash Balances.

The Committee of Public Accounts have made further investigation into the irregularities connected with the Post Office and Telegraph Services, which were the subject of comment in their First Report of March 1873, and in their Second Report of 1872.

In accordance with their recommendation, a searching inquiry has been instituted by the Treasury into the circumstances of the case.

The Committee have been furnished with the Report of the three Treasury officers who conducted the inquiry, together with the written questions and answers on which their conclusions were based. They have likewise taken the evidence of the Treasury officers in explanation of their Report, and of the Post Office, and other departments, and official persons, whose proceedings were in question, the whole of which, with other papers and documents in illustration of the subject, will be found in the Appendix, and to which they beg to refer for information in detail.

Having given the best attention and fullest consideration in their power to all the facts and statements thus submitted to them, your Committee have agreed to the following Report:—

The case of the Treasury as against the Post Office is shortly as follows:—The seven millions granted by the Act of 1869, most of which was specially appropriated, but of which £300,000 was assigned for Extensions " or other purposes," having been exhausted and overspent, Mr. Scudamore applied to the Chancellor of the Exchequer as soon as could reasonably be expected, and a further sum of one million was made available under the Act of 1871, of which, however, three-fifths was for liabilities and over-expenditure already incurred. Nothing arose to attract their attention till February 1872, when the Comptroller and Auditor General remarked in his report on the Telegraph Vote, that £382,000 had been withdrawn from the Vote Account to the Capital Account, and the Committee, examining on this point, drew from Mr. Scudamore the admission that his resources were nearly exhausted. Immediate inquiry from the Chancellor of the Exchequer followed, and on 19 March Mr. Scudamore furnished him with a letter making application for £400,000, the balance of the last loan remaining due, and a memorandum stating that £350,000 in addition had been spent or would be required to complete the extensions that then remained to be carried out, and that the working expenses of the year had exceeded the Parliamentary Estimate by £120,000 to £130,000. He promised an early statement of the total Capital Account, which he

* Appendix No. 3 to P.A.C. Report 1874, H.C. 242, p. 130.

had previously told the Committee would be furnished in a few weeks, but it was not forthcoming, and three letters inquiring for it in August, October, and December 1872, remained unanswered, nor was it furnished till after the full revelations which were made before the Committee in March 1873.

The Post Office, on the other hand, contend that their operations, however irregular, were known to and tacitly sanctioned by the Treasury. In support of this view, they refer to a programme of extensions and works laid before Parliament in January 1871, to the details and schedules of the Letter of June 1871, and to the schedule attached to the Memorandum of March 1872. The case is summed up in a Letter from Mr. Scudamore, which will be found appended to the Report of the Treasury Commissioners, which, however, is admitted by him to contain some inaccuracies. (*Vide* Question 1734.) The reply of the Chancellor of the Exchequer to this communication is set out at length in his evidence, in answer to Question 2082.

Nothing from any quarter has been laid before the Committee which can modify the expression of opinion contained in the 89th paragraph of their Report of March last, viz., " that the expenditure out of the " balances in anticipation" of Parliamentary authority has been both " irregular and objectionable," and they must repeat that " the plea of " urgency cannot be admitted as an excuse for such proceedings," although it is true, as observed by Mr. Scudamore, that three years only have elapsed since the Telegraph Service was undertaken by the Post Office, instead of four years, as stated in the paragraph.

The Committee, in the same paragraph, proceeded to draw attention to further considerations affecting various departments and public officers. With these they propose to deal in order, pointing out in each case how far their *primâ facie* view then expressed has been borne out or modified by the information since obtained.

1. It was stated, that " the Post Office appears to have uncontrolled " power of dealing with balances to the extent probably of a million in " excess of its legitimate requirements."

This is clearly proved and admitted to be the case. It appears that the unauthorized advances thus made out of balances have amounted to £890,000, of which the greater part was expended within the financial year 1872–73, and the power of making such advances is still, practically, uncontrolled. The balances in question are mainly derived from three sources, viz.: 1st. Money Order business, which supplies an average current balance of £160,000, against which no payments are legally chargeable; 2nd. Post Office Savings Banks net receipts, the whole of which, when reduced into cash at the Bank of England, are by law payable to the National Debt Commissioners; and, 3rd. Revenue receipts proper, out of which the costs of the establishment are temporarily defrayed, to be recouped afterwards by the sums appropriated by Parliament for that service. Thus, in strictness, there would seem to be no reason why the Postmaster General should have any power of dealing with his balances except for the last-mentioned purpose.

That Savings Banks deposits should be thus made use of was rightly stated to be a serious misappropriation, for, although the depositors are protected from loss by State guarantee, the terms of the Post Office Savings Bank Act require the excess of deposits over withdrawals to be paid over " forthwith " to the National Debt Commissioners, with a view to investment in interest-bearing securities, and it is obvious that thus only can the State be protected against serious losses in the conduct of the business.

2. As to the National Debt Office. The Committee could not but conclude, from the evidence before them in March, that the National Debt Commissioners were "constantly kept informed of the sums due to them by the Post Office." This appears, on further inquiry, to be an error, and they allege that they have no power under the Statute to inquire into or call for the balances which may be due to them from time to time, and that there is no official information at their disposal, except the annual statement, which is laid before Parliament about three months after date.

Nevertheless, the fact is that the present Comptroller of the National Debt Office wrote immediately on his appointment, on 27 March last, to the Postmaster General, requiring an account and transfer of the balances due, and within three days a sum of £430,000 was paid over accordingly.

On the whole, it can scarcely be doubted that the National Debt Office ought to have observed the growing irregularity with which for some years these payments had been made, and, notably, the short payments of 1870 as compared with those of 1869, the difference between them being about £400,000, while it was notorious that the business had been, from the first, constantly improving; and the Committee agree with the Chancellor of the Exchequer that, considering the intimate relations which subsist between the Treasury and the National Debt Office, it fell within the general duty and functions of the latter to have long since drawn the attention of the former and superior authority to the fact that these balances were not made over to them with precision and regularity, as during the early years after the Act came into operation.

The extent to which Savings Bank Deposits have been withheld is clearly shown by the tables appended to the Report of the Treasury Commissioners, but it must be borne in mind that a large portion of the nominal balance is always in the hands of postmasters, and in the shape of bills sent up from the country and not yet arrived at maturity.

As an example of the imperfect check afforded by statistical returns, it may be mentioned that the annual statement laid before Parliament, on 1 April, 1872, shows that a sum of £320,000 due for investment on Savings Bank Account was on 31 December 1871 remaining as a balance in the hands of the Postmaster General, a statement which might well have attracted notice in Parliament, and which might reasonably have been the subject of inquiry and explanation as between the Treasury which submitted it, and the National Debt Office and Post Office authorities by whom the document was jointly prepared.

3. The check of the Audit Office which was described in the Report of March as "imperfect, if not nugatory," had no reference to the duties imposed on the Comptroller and Auditor General by the Exchequer and Audit Act, with his discharge of which the Committee have had frequent occasion to express entire satisfaction; but is the check contemplated by the 13th section of the Post Office Savings Bank Act, 1861, which provides that the accounts "shall be submitted "annually for examination and audit to the Commissioners for auditing "Public Accounts;" and the proposition as stated above is strictly accurate.

It will be found on reference to a memorandum in the Appendix ("Audit of Post Office Savings Bank Account"), and to the statements by Sir William Dunbar in reply to the Treasury Commissioners (Question 20,* *see* also the evidence before the Committee), that the Audit Office has from the first felt it difficult, if not impossible, to carry

* H.C. 290, p. 123.

out an effective audit under the provisions of this section; and the Comptroller and Auditor General made, in May 1872, a formal protest to the Treasury that he was unable to do so, requesting to be relieved by alteration of the law from the statutory obligation. Since that time this audit has been practically in abeyance (*see* Qs. 1876–80), and the monthly statements of balances due to the National Debt Commissioners when received at the Audit Office have been put aside unexamined.*

Although it is to be regretted that no answer should have been given by the Treasury to this remonstrance, and although it is questionable whether such silence, and the fact that insufficient means are at their disposal, can release the Audit Office from the obligation of doing their best to comply with the requirements of the law, the point is of less consequence, because it is clearly shown by Sir William Dunbar, in his evidence, that no examination by him of the Savings Banks Accounts would have informed him of the misappropriation of the balances, into which it would have been no part of his duty to inquire (*see* Q. 1874). Indeed, the function of verifying the balances of public accountants has recently (by Treasury Minute, 14 August 1872) been assigned to the Public Accounts Commissioners, in consequence of the irregularities which were found to prevail at South Kensington last year. Still it is probable that a careful comparison of the balance sheets in successive years, if this audit had been effectual, might have drawn the attention of the Comptroller and Auditor General to the fact that they were rapidly increasing in amount, and, in that case, he would probably have felt it his duty to call attention to the circumstance.

4. The Committee next observed upon the position of the Postmaster General, which, they said, was compromised, " if the Secretary " in his office could carry on such enormous operations by means of " funds for which he, as chief, is accountable."

These words express but feebly the real condition of affairs.

Mr. Scudamore, the Second Secretary of the Post Office, on this, as on his previous examination, has expressed very frankly his anxiety to be considered responsible for all that has been done, and he seems, in fact, to have acted from the first, as the sole and absolute authority for carrying out the requirements of the Telegraph Acts; but, the Postmaster General being charged by Parliament with that function, it seems difficult to understand how the financial responsibilities entailed by the peculiar mode in which the service has been conducted, were withheld from him by Mr. Scudamore and Mr. Chetwynd, the Receiver and Accountant General of the department, or how he could have been content to be so kept in the dark.

The Postmaster General appears to think, and the Committee agree, that he has much reason to complain of the reticence of these officers, a reticence which seems scarcely compatible with the loyalty due to their chief; but he must be presumed to have accepted his appointment with full knowledge of his responsibilities, the Postmaster General being the accountant not only for the sums voted by Parliament for Post Office and Telegraph Services, but also for the revenue receipts and other moneys, with the collection and disbursement of which he is necessarily charged. It appears moreover, that Mr. Monsell knew, on 21 March 1872, that the moneys at the disposal of the Post Office for Telegraph Services were at that date overdrawn (*vide* letter, Q. 1934).

5. As to the Treasury. The Chancellor of the Exchequer seems to admit in his evidence (Q. 2061–62–63), that the Treasury has, in

* There is now a test audit of the Post Office Savings Bank Accounts initiated under section 33 of E. & A.D. Act, 1866.

theory, complete power of controlling the Post Office, and is peculiarly responsible for its "due and regular conduct," as stated in the Report of March 1873. It may be further gathered that he recognizes with some compunction the want of vigour and determination with which the continued delays of Mr. Scudamore, in rendering the long-promised capital account of Telegraph expenditure were met. It must be added, that from March 1872, onwards, while the expenditure now under consideration was still going on, there would have been ample justification for active interference on the part of the Treasury.* Neither the Chancellor of the Exchequer, however, nor the Treasury, seem to regard similar irregularities which (as noticed by the Committee in their March Report) were admitted by Mr. Scudamore in his letter of June 1871,† to have been equally blameable. Nor did the statement that a large sum had been expended out of "Revenue and other Balances" seem to them at that time a matter worthy of observation or warning, much less of censure (*see* Q. 2044–2048). A Money Bill was soon after introduced, passed through its several stages without a word of explanation or comment in the first week of August, and the result was that an additional million was added to the sums available under the previous Act of 1869 for Telegraph purposes, a great part of which went to recoup the Postmaster General's balances for the expenditure already defrayed from them.

The Committee have received from the Treasury a copy of a Minute of 28 June 1873 (*see* Appendix, p. 170), which indicates with more or less precision the various proposals which are made by the Government with the view of rendering these irregularities impossible for the future; and they think, on the whole, that when they are brought into operation the requisite checks may be considered to be secured.

In addition, however, to the measures and arrangements proposed, the Committee are of opinion that the distinct provisions of the Savings Bank Act, under which regulations for the conduct of the business were to be settled by the Postmaster General and the Treasury, should be immediately put in force. Such regulations, it appears, did exist (*see* Q. 1466), and have been most improperly cancelled by the sole authority of the Post Office in 1866.

They also think that copies of the weekly statements of gross receipts and payments on Savings Bank Account, which it is proposed that the Post Office should forward to the Treasury, should likewise be sent to the National Debt Office for their information.

The arrangements which are proposed to be entered into between the Audit Office and the Treasury for warning the Treasury "of facts "patent on the face of accounts which appear to them of a suspicious character" are of somewhat questionable expediency. The Comptroller and Auditor General (*see* Q. 1896–7–8) distinctly admits that it is his bounden duty to report all cases of suspicious irregularity which may come under his notice to the Treasury, but not the ordinary excesses on Votes, which are generally not ascertainable till his report to Parliament is completed. The Committee agree in this definition of his duty. The only debatable point seems to be this, that excesses of a flagrant

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* *Note.*—Mr. Scudamore's memorandum of 19 March shows an

	£
excess expended over capital of	200,000
A further intended expenditure of	150,000
To which must be added excess on voted account	130,000
Total	£480,000

Irrespective of the claims made by Railway Companies therein mentioned, which are referred to below.

† *See* Parliamentary Paper, 378 of 1871.

character, and ascertained at an early period of the year, may occasionally amount to an irregularity which ought to be specially reported. Any attempt to define the limits of this responsibility, which your Committee think inherent in the position of the Comptroller and Auditor General as a high State functionary, is open to the objection that cases may at any time arise for which no conceivable regulations laid down *a priori* can provide.

The Committee recommend that so soon as the Capital Account, now under examination, has been passed and sent to the Treasury, immediate attention should be given to the question raised by the Comptroller and Auditor General in successive reports, whether the law does or does not require the whole of the telegraph extension works to be defrayed out of Votes of Parliament.

In the course of their inquiries the Committee have been informed that certain claims of railway companies, as against the Post Office, are still outstanding and awaiting settlement, which may entail a further heavy addition to the capital outlay already incurred on Telegraph Account. They forbear to mention the figures which have been placed before them, as to do so might prejudice the pending arbitrations and negotiations, but they feel it impossible not to inform the House of Commons of the fact that such a liability exists.

In conclusion the Committee desire to express their regret that they have found it their duty to make on this, as on a former occasion, unfavourable remarks upon the financial administration of the Post Office, and on the proceedings of Mr. Scudamore in connexion therewith.

The Post Office, speaking generally, seems to be admirably organized and skilfully administered, so that it goes far to combine the maximum of public accommodation with the maximum of gain to the Exchequer. Again, to the abilities and energy of Mr. Scudamore is mainly owing the introduction of the plan of a Government Telegraph Department, its rapid realization, and effective working. Much may be excused to a public servant to whom individually the public must feel under obligation. But the fact remains, and your Committee cannot blink or ignore it, that the financial operations by which this service has been carried on from the beginning, and especially during the last twelve months, are destructive to all control by Parliament or the Executive Government over public expenditure, and would be of disastrous precedent if condoned or unmarked by this expression of disapproval.

The Comptroller and Auditor General has submitted an important memorandum, which will be found in the Appendix (p. 171), showing that in his opinion the form of the Telegraph Act was unusual, and open to objection. His position as Comptroller of the Exchequer gives weight to these observations, which the Committee commend to the attention of the House of Commons, and of the Government.

He has also made a suggestion which is worthy of consideration, viz., that, as already is the case in the Army and Navy Services, it should be made incumbent on every department, in the event of unforeseen and unavoidable expenditure, to report the probability of an excess to the Treasury.

My Lords have before them the Second Report of the Committee on Public Accounts (1873) *which dealt with the irregularities, then recently brought to light, in the administration of the Post Office and Telegraph Services.*

They read the Minute of 28 *June last* (printed at p. 170 of the Appendix to the Report), *in which the First Lord and the Chancellor of the Exchequer submitted to the Board the measures in their opinion required to prevent a repetition of such irregularities.*

A copy of that Minute was communicated to the Public Accounts Committee, but action upon it was purposely suspended for a time, in order to give the Committee an opportunity of commenting upon it.

It was subsequently referred to the Treasury Officers of Accounts for their opinion upon certain details, and their Report is before the Board.

My Lords are, therefore, in possession of information sufficient to enable them to decide the extent to which, and the manner in which it will be expedient to give effect to the suggested measures; they propose now to review them seriatim *with the comments of the Committee upon them, and they will reduce them into the shape of working regulations to be put into force without further delay.*

The First Lord, and the late Chancellor of the Exchequer, made eight recommendations, which may be summarized as follows:—

1. *That the Post Office render such accounts as will acquaint the Treasury with the progress of the general finance of the department.*
2. *That it be ascertained whether the law, as it stands, permits the transfer of* net *Post Office Savings Banks' receipts to the National Debt Commissioners, and if it does not, that it be amended.*
3. *That weekly summaries of Post Office Savings Banks' receipts and withdrawals be furnished to the Treasury, so that my Lords may know whether the law is strictly obeyed.*
4. *That the Law Officers of the Crown be not consulted on matters involving Treasury responsibility without Treasury concurrence.*
5. *That the Comptroller and Auditor General be requested to communicate to the Treasury facts patent on the face of the accounts submitted to the Audit Office, which appear to him of a suspicious character.*
6. *That provisions in Acts of Parliament found inconvenient in practice, be not set aside, but be brought to the notice of Parliament for amendment.*
7. *That a list of agreements made under the Telegraph Acts be laid before the Treasury.*
8. *That the Accountant General of the Post Office be instructed to request the Treasury to furnish him with funds to defray expenditure ordered by the superior authorities of the department if he have at his disposal no funds properly applicable to such expenditure, informing the Postmaster General that he has done so.*

The Committee of Public Accounts report that the Minute indicates with more or less precision the various proposals which are made by the Government with the view of rendering the irregularities under investigation impossible for the future, and they state their opinion that, on the whole, when the said measures are brought into operation, the requisite checks may be considered to be secured.

They suggest that, in addition to the measures and arrangements proposed, the distinct provisions of the Savings Banks Act, under which regulations for the conduct of the business were to be settled by the Postmaster General and the Treasury, should be immediately put in force. They call attention to the fact that such regulations did exist, and were most improperly cancelled on the sole authority of the Post Office in 1866.

Further, the Committee think that copies of the weekly statements of gross receipts and payments on Savings Banks' account, which it is proposed that the Post Office should forward to the Treasury, should likewise be sent to the National Debt Office for their information.

On one point the Committee express doubts. It appears to them that the arrangements which are proposed to be entered into between the Audit Office and the Treasury are of somewhat questionable expediency. "*The Comptroller and Auditor General distinctly admits that it is his* "*bounden duty to report all cases of suspicious irregularity, which* "*may come under his notice, to the Treasury, but not the ordinary* "*excesses on Votes, which are generally not ascertainable till his report* "*to Parliament is completed.*"...*The Committee agree in this definition of his duty. The only debateable point seems, in their opinion, to be this—that excesses of a flagrant character, and ascertained at an early period of the year, may occasionally amount to an irregularity which ought to be specially reported.*

They add that "*any attempt to define the limits of this* "*responsibility which they think inherent in the position of the Comp-* "*troller and Auditor General as a high State functionary, is open to* "*the objection that cases may at any time arise for which no* "*conceivable regulations laid down* a priori *can provide.*"

It is thus evident that the Committee accept in the main the scheme of the First Lord and of the late Chancellor of the Exchequer; and it appears to my Lords that there will be no difficulty in introducing into that scheme modifications which will carry out the suggestions and remove the objections put forward by the Committee.

A question has been raised in the course of the discussion which it may be as well to consider here, namely, whether the accumulation of receipts from all sources into one cash balance at the Bank of England has not given the Authorities of the Post Office undue facilities for misapplying the funds intrusted to them. The implied remedy would, of course, be found in the division of the one cash balance into as many cash balances as there are heads of receipt for which the Postmaster General is responsible.

Under the present system the net receipts under all heads are remitted daily in one sum from several thousand country offices to London, and as the remittances mature, they swell the one cash balance of the Postmaster General at the Bank of England; but the accounts of the Post Office are not completed until some ten weeks after date, and in the meantime the Postmaster General has (with one important exception, to be named later) no means of stating precisely the proportionate parts of which his balance is made up, and he cannot, therefore, say precisely out of what moneys his cheques are paid.

It may be fairly argued that, as a matter of orderly administration, he should have earlier knowledge of the progress of the Departmental finance, and my Lords will deal with this argument hereafter; but it is certain that want of early knowledge did not lead to the irregularities which form the subject of the Treasury Minute and of the Committee's Report. In proof of this statement my Lords need only mention that the Post Office Authorities do now bring receipts of one fund under their charge, those of the Post Office Savings Banks, to book so immediately that they know on Wednesday the general state of the account on the previous Saturday; yet this knowledge did not prevent them from making improper use of Post Office Savings Bank moneys.

The resolution, therefore, of the one cash balance into as many balances as it has component parts, would not secure the object which my Lords and the Committee have in view.

On the other hand, the adoption of such a measure would be a retrograde step in financial policy.

Sir W. Anderson, during thirty years and more, directed his energies especially to the consolidation of Pay Offices and the reduction and

safety of balances. He thereby effected a great saving of superfluous labour and wasteful expenditure, and he had the satisfaction of seeing the principle which he advocated embodied in the Exchequer and Audit Act, and become an axiom of administration. My Lords have no intention of departing, except upon proof of absolute necessity, from the policy of which he was the chief exponent. Upon this point they entirely agree with the remarks of the Treasury Officers of Accounts, to whom the question was referred, and they will maintain the present economical system of one general cash balance for the Post Office at the Bank of England.

They are, however, of opinion that steps should be taken to keep the Postmaster General, and through him this Board, constantly informed up to the latest practicable date of the progress of the Post Office Revenue. The want of such concurrent information, under the present arrangements, has produced the gravest inconvenience, and on one occasion caused incorrect information to be communicated to the House of Commons. The late Chancellor of the Exchequer stated in his Budget that the payments into the Exchequer in the year 1872–73 for the Post Office proper were £4,820,000, and he estimated them for the ensuing year at £5,012,000. In fact, the Post Office net receipts for the year 1872-73 were £5,224,000, but this result was not made known until the completion of the accounts about the middle of June. Thus the Chancellor of the Exchequer and the House of Commons were alike misled, and were not in a position to form a correct judgment on the past or future of the Post Office Revenue.

My Lords do not believe that a similar error is possible under the financial arrangements of any other branch of revenue, and they feel sure that the Postmaster General will co-operate heartily with them in making a repetition of it impossible.

That there is no insuperable obstacle to the obtaining of concurrent information is evident from the fact that the state of the Post Office Savings Bank fund is now ascertained for each week, and within a few days of the close of the week. With this instance before them, my Lords propose to request the Postmaster General to submit to them a scheme for obtaining at the close of each month a statement of the receipts and payments, together with the balance remaining on each of his accounts up to that date. It is true that some expense may be incurred in consequence, but, however this may be, the expense will be justified if miscalculations, which are scarcely creditable, be henceforth rendered impossible.

My Lords now turn to the regulations which they have to lay down in pursuance of the Minute of 28 June.

I. *The first proposal contained in that Minute is that the Post Office render such accounts as will acquaint the Treasury with the progress of the general finance of the department.*

My Lords approve the suggestions of the Treasury Officers of Accounts upon this head, and—

1. *They will require the Post Office to transmit quarterly to the Treasury, in a form to be approved by this Board, statements showing the following particulars:—*

(a) *The total net receipts under each head of revenue for the expired period of the financial year, the total payments to the Exchequer in the same period, and the balances outstanding at the commencement and close of the period.*

(b) *The total receipts on account of Post Office Savings Banks, and Government Annuities and Insurance respectively, the total amounts of payments (withdrawals, &c.) in respect of the same, and of transfers to*

the National Debt Commissioners in the expired period of the financial year, with the balances at the commencement and close of the period.

(c) *Similar particulars of total receipts, payments, and balances, in respect of money orders, and Inland Revenue licenses.*

(d) *The total amount of expenditure in the expired portion of the financial year under each general vote, the amounts received from the Exchequer on account thereof, and the balances in hand or due to Revenue.*

(e) *Balance sheet and statement showing the disposition of the total balances of the revenue and other accounts.*

It may be observed that these Quarterly Statements will be prepared upon the completion of the accounts. They will therefore be considerably in arrear, probably from ten weeks to three months; the concurrent monthly accounts mentioned above will, however, obviate any inconvenience arising on this head.

The first Quarterly Statement will be prepared and sent in at once, and it will contain the results of the first half of the financial year to 30 September last.

One result of the late inquiry into the Post Office irregularities has been to require, on the part of the Treasury, an extended control over the Revenue Departments. It is clear, therefore, that the scheme now under consideration will be incomplete unless it extends to the Customs and Inland Revenue Departments. My Lords will therefore call upon these two Boards to furnish Quarterly Returns, drawn upon the same principle as they propose to adopt in the case of the Post Office. They will further take steps to satisfy themselves that these Departments obtain, in a sufficient degree, concurrent information of the progress of their revenues.

2. *They will require that the claims for repayment of advances from the revenue for Post Office salaries and expenses be made (in round figures) monthly instead of quarterly. The cost of the Savings Bank Department is also to be recovered monthly from the National Debt Commissioners.*

My Lords agree with the Treasury Officers of Accounts that a similar regulation should be enforced in the Customs and Inland Revenue Departments.

3. *They will adopt the principle which is in force in the Inland Revenue Department, and direct that all expenses repayable from Votes, all payments made in the nature of advances for other departments, and further, all balances and unrealized remittances be borne by the postal head of Revenue, so that the Telegraph and Miscellaneous Revenue may be immediately transferred to the Exchequer, and the Post Office Savings Bank moneys and other receipts may in like manner be promptly paid over. It is, moreover, desirable that payments of Post Office Revenue should be made more frequently to the Exchequer.*

II. *The second proposal of the Minute of 28 June is, that the law as to the transfer of Post Office Savings Banks' Deposits be ascertained, and, if necessary, amended.*

My Lords will send the case to the Solicitor for his opinion, and if it should appear that the present practice is not in accordance with the law, they will introduce an amending Bill at the commencement of the coming session. The principle of administration to be adopted will contemplate the weekly transfer of net deposits to the National Debt Commissioners; the transfers will be based upon the weekly summaries*

* See Post Office Savings Banks Act, 1874, 37 & 38 Vict. c. 78.

prepared in the Department, and will be made in round sums of not less than £10,000, so as to leave at ordinary times a balance of not more than that amount in the hands of the Postmaster General. A departure from these rules as to the weekly transfers will be permitted at certain limited periods of the year, when it is known by experience that the withdrawals will exceed the deposits; but this exception will be allowed solely in order to avoid the inconvenience of immediate re-transfers by the National Debt Commissioners.*

In accordance with the recommendations of the Committee, my Lords will direct that the distinct provisions of the Post Office Savings Bank Act, under which the conduct of the business is to be settled by the Postmaster General and the Treasury, be at once put in force.

III. *In accordance with the recommendations of the Minute and of the Committee, my Lords will direct copies of the weekly summaries of Post Office Savings Banks' receipts and withdrawals to be furnished to the Treasury and to the National Debt Commissioners.*

IV. *In accordance with the recommendation of the Minute, they will direct the Revenue Departments not to consult the Law Officers on matters involving Treasury responsibility without the concurrence of the Treasury; and further, before taking action, to communicate to the Treasury any opinion of the Law Officers that affects, directly or indirectly, Treasury responsibility.*

Further, they will request their Solicitor to procure for them quarterly lists of the cases which have been submitted by the various Departments to the Law Officers.

V. In deference to the opinion expressed by the Committee on Public Accounts, my Lords will not suggest any arrangement such as that recommended in the Minute to be made between this Board and the Audit Office; they will merely communicate this decision to the Comptroller and Auditor General and acquaint him with their wish to have the benefit of early information respecting any circumstances indicating serious irregularity or departure from Treasury regulations in matters of expenditure, receipt, or account.

My Lords will further invite the Comptroller and Auditor General to favour them with his opinion as to the necessity for applying a more searching audit to the accounts of the Revenue Departments.

VI. *The Minute recommends that provisions in Acts of Parliament found inconvenient should not be set aside without the authority of Parliament. My Lords will send a circular to the Departments on this subject. They will further desire all Departments, in the event of unforeseen and unavoidable expenditure, to report the probability of an excess to the Treasury.*

VII. *The List of Agreements for the purchase of Telegraph undertakings, to which the Minute of 28 June makes allusion, has already been called for.*

VIII. *In accordance with the recommendations of the Minute, my Lords will request the Postmaster General to issue a Minute under which the Accountant General will be instructed, in the event of his receiving orders to make payments for which he has no funds in his (the Accountant General's own) judgment legally applicable, to request*

* Limit of balance was raised to £100,000 in 1876.

*the Treasury to provide the necessary funds, sending at the same time a copy of such application to the Postmaster General.**

*It will be proper that a similar regulation should be established in the other Revenue Departments.**

REPORT, 1874. H.C. 242.

Treasury Minute, 17 *August* 1874.†

CIVIL SERVICES.

CLASS I, VOTE 25.—PUBLIC BUILDINGS, IRELAND.

Credit for Old Material issued to Contractors.

17. The Comptroller and Auditor General points out that in framing the Estimates of Public Buildings in Ireland the net amount is shown, allowance in certain instances being made for the probable value of old stores or materials. The rule, he states, almost invariably followed in taking the Estimates for Civil Services, is to provide for the gross expenditure, and to treat as Exchequer Extra Receipts any sums received from the sale of old stores or materials. According to the evidence given to this Committee, it appears that it is the practice of the Office of Works in England, as well as of that in Ireland, in cases where cash is paid for old stores or materials, to treat the price obtained as Extra Receipts. Again, both offices, where old materials are taken over and used by the contractor in the alteration or execution of his work, pay him only the net amount due after using those materials. It is in cases where a price is put upon old materials not used but retained by the contractor, and deducted from the amount paid to him, that the alleged difference of practice, rather than of rule, appears to arise. Moreover, it is stated to be more commonly the habit of the Irish than of the English Office of Works to enter into arrangements of this nature with contractors.

18. Your Committee are not satisfied that there is after all any serious difference between the proceedings of the two Boards; but they are of opinion that, without attempting to insist on uniformity to an inconvenient extent, the Irish Board of Works should pursue the same course as is followed in the Civil Services generally.

Extract from Treasury Letter 18 *December* 1874, *Civil Services Appropriation Accounts* 1873–74, *p.* 43.—*It appears to my Lords that an old building, when condemned, represents a certain quantity of building material which has been already paid for, and which, if used again in the construction of another building, does not undergo any such change in its character as requires to be recorded in an account; whereas, if any part of such material is sold, or allowed to be removed by a contractor, instead of being used in the construction of the new building, the cash value of it should be paid into the Exchequer as an Extra Receipt for stores sold.*

This appears to my Lords to be the rule common to the War Office, Admiralty, and Board of Works in England, and they consider that it

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* The Treasury afterwards agreed that the Accountant General, instead of himself requesting the Treasury to provide funds, should make a written representation to the Postmaster-General, who in any case of doubt or difficulty would bring the question under the notice of the Treasury. Similarly in the other Revenue Departments, written representations were to be made to the Board. (*See* correspondence in P.A.C. 1874, Appendix, pp. 183 to 145.)

† Appendix to P.A.C. 1. 1875, H.C. 107, p. 49.

should be applied to the Board of Works in Ireland. They have accordingly directed the last-named Department to alter their practice in this respect for the future, to fix a price upon old materials not used, but retained by, the contractor, and to pay that price, when realized, to the Exchequer as an Extra Receipt.

CLASS III., VOTE 21.—LAW CHARGES AND CRIMINAL PROSECUTIONS, IRELAND.

Advances.

46. The Comptroller and Auditor General reports that in relation to two advances of £1,000 each, made to Messrs. Roche and Ennis, attorneys, on account of their costs, no certificates were supplied to him showing that when these advances were made their costs had exceeded the amounts in question. Having regard to the 24th Clause of the Exchequer and Audit Act, which provides in relation to an Appropriation Account that " no imprest or advance of the application of which " an account may not have been rendered to and allowed by the " accounting department shall be included on the discharge side " thereof," he objected to these advances as not properly chargeable against this Vote.

CLASS VII., VOTE 6.—REPAYMENTS TO CIVIL CONTINGENCIES.

Creation of a Baronet—Remission of Fees and Stamp Duty.

75. Your Committee are of opinion that the total cost to the country of the relief accorded to the recipient should be made clearly apparent, by being charged against one Vote; that it should rather be an object to impress it upon the attention of Parliament than to withdraw it from view.

T.M. 17 *August* 1874.—*The object which the Committee have in view . . . will be attained by the addition of a note to the Appropriation Account of the Vote for Miscellaneous Expenses specifying the cases in which the payment of stamp duty has been remitted, and the amounts involved; and* [*my Lords*] *desire that this course may be followed for the future* [See also P.A.C. 4. 1894. 9, p. 339]

REVENUE DEPARTMENTS. VOTE 3.— POST OFFICE.

Treasury Authority.

85. The Post Office do not seem to have accepted in its full meaning the Constitutional rule that the sanction of the Treasury is necessary to increase of expenditure. . . .

TELEGRAPH CAPITAL ACCOUNT.

Treasury Authority.

110. . . . The omission to obtain Treasury sanction previous to the completion of agreements requiring it was a grave neglect. An *ex post facto* sanction, although the best, indeed the only practicable course left to cover past irregularities, is an unsatisfactory substitute for that sanction precedent which Parliament intended to secure.

Extra Remuneration.

120. Section 46.—Your Committee have considered the question of the payments made in 1869 to Mr. Chetwynd and other officials of the Post Office Department, for extraordinary services in the examination of the accounts of Telegraph Companies. Not only were these payments

made without the knowledge and authority of the Treasury, but when, in 1872, that Department was applied to, and did sanction remuneration to the same officers for special services in connexion with the acquisition of the telegraphs, it was not informed of these previous payments for cognate services. Your Committee cannot but look upon this omission as at once extraordinary and highly reprehensible; they have hesitated whether they should not recommend the disallowance of the unauthorized payments. Having regard, however, to the acknowledged importance and efficiency of the services of the recipients of these payments, services rendered under great pressure both as to time and labour, having regard also to the laxity or supineness which appears to have so long obtained in a greater or less degree throughout all the Departments concerned upon the subject of telegraph expenditure, they abstain from taking this extreme course, and content themselves with recording their serious disapproval of the entire transaction.

Army Services.

Payment for Stores not delivered.

130. Section 8.—A question is raised whether payments for certain stores not actually delivered into store within the financial year 1872–73 should be allowed as charges against that year. A similar question was raised last year; a correspondence passed between the War Office and the Treasury, and the payments were disallowed by the Committee on Public Accounts. The broad rule is recognized that all moveable stores should, with a view of securing the public from loss, not be paid for until actually delivered into store. On the other hand, it is contended by the War Office, and admitted by the Treasury, that cases arise in which it is for the public interest, due provision being taken against loss, to depart from this rule. Admissible exceptions are pointed out by the Treasury in the correspondence annexed to the Comptroller and Auditor General's Report last year. [*See* T.L. 7 December 1872, at p. 35.]

132. The Committee are of opinion that whenever the broad rule is departed from the Department should in the account rendered to the Comptroller and Auditor General briefly state ground for so doing.

To the War Office. The Secretary of State will observe in paragraph 132 *the opinion of the Committee as to the course which should be followed in cases of departure from the general rule of bringing to charge only such payments as are for stores actually received within the financial year.*

My Lords concur with the Committee, and request that the course indicated may be adopted whenever the necessity arises.

Navy Services.

Indelibility.

134. Section 2.—The Committee concur in this instance with the Comptroller and Auditor General in the opinion that the accounts of the year 1872–73 should not be modified to adjust an error in the Vote of the preceding year, and that the error may be sufficiently indicated in a note.

FIRST REPORT, 1875. H.C. 107.

CIVIL SERVICES.

CLASS III., VOTE 23.—COURT OF CHANCERY, IRELAND.

Information to be given to the Audit Department.

39. . . . Your Committee consider that the Comptroller and Auditor General is entitled to look to the Accounting Officer of every Department for the information which he requires, and that the officers of Departments should be at all times ready to afford information to the Comptroller and Auditor General through their respective Accounting Officers.

REVENUE DEPARTMENTS.

VOTE 1.—CUSTOMS. VOTE 2.—INLAND REVENUE.

Test Audit of Revenue Accounts.

66. Section 6.—The proposal of the Comptroller and Auditor General, assented to by the Treasury, to inform the Departments whose accounts are subjected to a test examination of the result of such examination, instead of giving certificates, according to the former practice, of the correctness of the accounts, appears to your Committee fair and reasonable.

67. The test examination of the Customs Revenue Account has at the same time been extended so as to embrace an examination in full of the Discharge side, as well as a test of the Receipt side, for the year 1873–74. The same extended test examination will be applied to the Inland Revenue Account for 1874–75.

ARMY PURCHASE COMMISSION ACCOUNT.

Limit laid down by Act.

74. The Comptroller and Auditor General calls attention to the number of half-pay officers who received compensation on retirement during the year 1873–74 as being in excess of the number authorized by the Act 34 & 35 Vict. c. 86, the Regulation of Forces Act, 1871.

75. Your Committee consider that the general principle which they understand the Comptroller and Auditor General to advocate is sound, viz., that the Estimates, although covered by the Appropriation Act, should not be employed to set aside an express limit laid down by an existing Act of Paliament; and that to guard Parliament against a surprise, if on no other ground, it is desirable that this principle should be kept in view.

76. The Treasury concur in this opinion, and add that, as a rule, the preferable course is to amend the existing Act.

SECOND REPORT, 1875. H.C. 336.

REPORTS of the COMPTROLLER and AUDITOR GENERAL on ACCOUNTS of COMMISSIONERS of CHURCH TEMPORALITIES in IRELAND, and REPORTS of the COMMISSIONERS.

Powers of Comptroller and Auditor General.

35. The very extensive powers of the Commissioners are contained mainly in Section 7 of the Irish Church Act (32 & 33 Vict. c. 42). They are thereby substantially made, for all necessary purposes of the Act, the sole judges of law or fact, and every order or decision made by them is to be final.

36. The powers of the Comptroller and Auditor General are contained in the 37th section of the same Act. He is thereby authorized to audit, certify, and report upon the accounts of the Commissioners with reference to the provisions of the Act, and in conformity with the powers and regulations prescribed in the Exchequer and Audit Act, 1866, in respect of Appropriation Accounts. Under the Exchequer and Audit Act the most important function intrusted to the Comptroller and Auditor General in his examination of Appropriation Accounts is to ascertain whether a given sum has been applied as appropriated by Parliament. Under the Irish Church Act (with the exception of a sum, £500,000, assigned in lieu of private endowments, unless an allotment like that of 14 years' purchase to Maynooth is to be considered an appropriation), there are no specific appropriations of sums of money. The Commissioners are empowered to ascertain and declare by order the amounts to be applied to a particular service, and their decision in such cases becomes the appropriating authority.

38. It has been distinctly admitted, on the part of the Commissioners, that the Comptroller and Auditor General has the fullest right to require vouchers of payments to be produced to him. The terms of a Minute dated 6 January 1874, adverse to this right, have been qualified and explained in evidence and by a subsequent Minute. Nor is it disputed that it would be his duty to point out a departure from the express provisions of the Act.

39. It has been not less distinctly admitted that the Comptroller and Auditor General has no right to call in question the finality of a decision or Order of the Commissioners deliberately made in their character of judges of law and fact under the Irish Church Act. He disclaims ever having disputed such finality, and adds that he never differed from the Commissioners upon a point of law without diffidence, recognizing that the functions of his department are primarily financial. Again, the Comptroller and Auditor General cannot claim that the Commissioners should furnish him with the reason of, or justify their judicial decisions to him; and any information or explanation they may have, or may hereafter afford him, of the grounds of any such decision, is a voluntary act on their part.

40. It is nevertheless the right and the duty of the Comptroller and Auditor General to examine, point out, and report upon the financial results of the decisions of the Commissioners.

41. Your Committee do not state the above propositions as embodying a complete and exact definition of the legal powers of the Commissioners and of the Comptroller and Auditor General. They state them only as guiding principles . . .

FIRST REPORT, 1876. H.C. 133.

*Treasury Minute, 15 September 1876.**

CIVIL SERVICES.

CLASS I., VOTE 13.—COUNTY COURT BUILDINGS.

Purchase of Land.

12. The Comptroller and Auditor General calls attention to the circumstance of the cost of a Site and Buildings having been included

* The Treasury Minutes on the Reports of each year from 1876, with the exceptions noted on pp. 191 and 511, are printed in the Appendix to the Parliamentary Paper containing the following year's Reports.

in Subhead A., "New Works and Additions," and observes that the Committee on Public Accounts on a former occasion expressed the opinion that expenditure for the purchase of sites should appear under a separate subhead.

13. It was represented to your Committee that it was apprehended that the statement in the Estimates of a definite sum while negotiations for a purchase are pending might be prejudicial to the public interest. Your Committee recommend that the title of the subhead "New Works and Additions" should be extended so as to cover the purchase of Sites or Buildings, and that in the subsequent account the cost of the purchase should be distinguished from the other items. The same observation will apply to similar cases under other Votes.

My Lords desire, accordingly, that this subhead be in future entitled "New Works, Additions, and Purchases."

Class III., Vote 21.—Prisons and Judicial Statistics, Scotland.

Manufacturing Accounts.

37. Your Committee recommend that the expense of the Manufacturing Department be in future stated in a note upon the Accounts.

To Home Office.—I am to ask that the accounting officer be instructed to note the expense of the Manufacturing Department of the General Prison at Perth upon future accounts, as recommended by the Committee.

Class IV., Vote 2.—Science and Art Department for the United Kingdom.

Extra Remuneration.

44. . . . Your Committee are further of opinion that it should be clearly understood that no salaried officer should in any case be engaged or employed at additional remuneration without the previous sanction of the Treasury.

To Education Department.—I am to express my Lords' hope that measures may be taken for strictly observing the recommendation of the Committee, so decidedly expressed, that no salaried officer should in any case be engaged or employed at additional remuneration without previous Treasury sanction.

Class VI., Vote 3.—Relief of Distressed British Seamen Abroad.

Abandonment of Claims.

61. Your Committee have taken evidence upon the question of the abandonment of claims against shipowners for the repayment of expenses adverted to by the Comptroller and Auditor General, and discussed at length in the correspondence appended to his Report. In view of that correspondence, and of the evidence, the Committee are of opinion that the best and plainest course will be to lay down a rule that no claim once advanced shall be abandoned without the approval of the Treasury.

The Lords of the Committee of Privy Council will observe that, as regards the abandonment of claims against shipowners for expenditure in the relief of seamen, the Committee suggest the adoption of a rule that no claim once advanced should be abandoned without the approval of the Treasury. My Lords are of opinion that practical effect will be

given to this recommendation, if the Lords of the Committee will send to this Board two schedules of claims against shipowners which it is proposed to abandon: 1, headed " Claims as to the validity of which there is legal doubt "; 2, headed " Claims as to the validity of which there is no legal doubt."

In the former case, my Lords will accept the recommendation of the legal adviser of the Board of Trade, and give their covering sanction without further inquiry. In the latter the various proposals will be considered on their merits. My Lords believe that by this means the object of the Committee will be gained without needlessly hampering the Board of Trade.

NAVY APPROPRIATION ACCOUNT.

Balance Payments, Mode of Charge.

65. Section 1.—The Comptroller and Auditor General observes that the balances due to certain contractors for machinery were, in the year 1874–75, charged to Subhead I. (Contingencies for Machinery) of Vote 11, whereas the advances for the same services in 1873–74, or in preceding years, were charged to other subheads of the same Vote. He objects to the course adopted that, the charge for one and the same service not appearing under the same subhead, it becomes more difficult to trace the cost thereof. The Accountant General of the Navy admits that there is force in the objection, and agrees in principle with the Comptroller and Auditor General; he adds, that in cases in which he can foresee that a certain balance will come in course of payment he estimates for it under the same subhead as the advance; where, however, a particular balance which he has not been able specially to estimate for, not foreseeing that it would come in course of payment, does so come, he contends that he is precluded by the Appropriation Act from charging it to any subhead but that of " Contingencies." The Audit Office contend that the subheads are comprehensive enough to allow of the charge for the balance, although its coming in course of payment in the year was not foreseen, to be carried to the same subhead as the preceding payment for the same service. The Treasury support this view, and consider that the Accountant General of the Navy places too narrow an interpretation upon the terms of the Appropriation Act, and construes it as appropriating the amounts mentioned under different subheads of a Vote in the Estimates with the same strictness as the amount of the Vote itself.

66. Your Committee concur with the opinion expressed by the Audit Office and the Treasury and recommend that the payment of the balance should, in the present instance, be charged to the same subhead as the prior payment for the same service.

The Board of Admiralty will observe that the Committee concur in the opinion of this Department and the Audit Office, that the balance payment for a service should be charged to the same subhead as the advance made for such service in a previous year, even though no special provision for the balance may have been made under that subhead.

Imprest of Passage Money.

67. Section 2.—The Comptroller and Auditor General points out that a particular payment of £12 10*s*. for passage money should not have been treated as a final charge against the Vote, but as an imprest, inasmuch as it was apparent that the whole amount would be repaid.

The Accountant General of the Navy admits that there was every reason to expect repayment, and the Committee concur in the view of the case taken by the Comptroller and Auditor General.

My Lords also concur in this opinion.

Excess of Expenditure; Information of Parliament.

72. Your Committee again observe, as in their Report of last year, that the circumstance of the insufficiency of the provision for the year was not brought under the notice of Parliament, either before the close of the financial year (1874–75) or in the course of the Session.

74. Your Committee think it right to call attention to the habitual use made by the Admiralty of the power of applying, with the consent of the Treasury, surpluses on certain Votes to meet deficiencies on others. Reliance upon this power has led the Admiralty, as stated by the Accountant General of the Navy, in two successive years, to delay applying for a Supplementary Estimate to cover expenditure in excess of that provided for by Act of Parliament.

75. This course of proceeding, unless strictly guarded, must to a great extent render nugatory the control of the House over the separate Votes. In a service like that of the Navy, where unforeseen demands must from time to time arise, some such power is undoubtedly necessary; and the provision of the yearly Appropriation Act, which requires the consent of the Treasury to its exercise, is intended to guard against its unnecessary use.

76. This object does not appear to your Committee to have been fully attained, as in some cases the consent of the Treasury is not applied for until after the excess of expenditure has been incurred, and it is absolutely necessary that it should be defrayed. For instance, in August 1874 the Admiralty was aware that there would probably be a large excess on Vote 10, Section 1, but it does not appear that at that time the sanction of the Treasury to apply probable surpluses on other Votes to meet this excess was applied for.

77. We are of opinion that the Treasury should be informed, at the earliest practicable date, of any probable excess on a Vote, and that its consent should at the same time be asked to defray such probable excess from surpluses anticipated on other specified Votes.

My Lords request you to draw the special attention of the Board to the remarks of the Committee on the frequent deficits on Navy Votes, and to their suggestion that the Treasury should be stricter, than heretofore, in exercising the discretion given them by the annual Appropriation Act, to authorize the temporary application of surpluses to meet deficiencies.

My Lords trust that the utmost care will be taken, in future, to obtain Treasury authority before the expenditure in excess is incurred, and that, as enjoined in previous communications from this Department, the earliest information may be given to them of any probability of an excess becoming necessary.

THIRD REPORT, 1876. H.C. 324

Civil Services Appropriation Accounts.

Sub-Accountants; Date of Charge.

2. A Treasury Minute has been prepared, and appears in the Appendix, on the subject of the date of record of payments by Sub-Accountants.

Extract from T.M., 21 June 1876 appended to Report, p. 32.—The Departments generally should regard officers who are under their control as sub-accountants, and the date of payments made by such officers should be the date of charge.

Army Appropriation Account.

Test Audit.

9. Your Committee learn with satisfaction that the Treasury has at length determined upon a scheme for a Test Audit of the War Office Accounts, and has framed a Minute upon the subject. That Minute and correspondence relating thereto will be found in the Appendix to this Report [*see below*].

10. It appears that the War Office have taken exception to some of the proposals made by the Treasury, but your Committee believe that the questions raised by the War Office will, on further consideration, be found to be theoretical rather than practical, and that the Audit Office and other departments interested may readily arrive at a good understanding in relation to them. Your Committee recognize that the introduction of the proposed Test Audit must be conducted with care, discretion, and mutual forbearance; but they trust that all concerned will feel that a point has been reached when it becomes an imperative duty to avoid, as far as possible, allowing inter-departmental difficulties, and objections of theory or of detail, to delay the application or impede the smooth working of an audit of the Army Accounts similar in character (although limited in extent) to that which has been applied with beneficial results to the accounts of other Offices of State and branches of the Public Service, the War Office and Admiralty excepted.

11. The Comptroller and Auditor General informed your Committee that he cordially concurred in the suggestions of the Treasury, and was prepared to carry them into effect . . .

12. In regard to a Test Audit of Naval Accounts, your Committee refer to the evidence taken by them on the Navy Appropriation Account. They are of opinion that an audit of that description is as desirable with regard to the Naval as to the Military Accounts.

THIRD REPORT, 1876, APPENDIX No. 1.

Treasury Minute 4800*/76, 20 March 1876.

Army Audit.

My Lords have before them the Reports of the Public Accounts Committee on the Army and Navy Appropriation Accounts for a succession of years.

Write to the Comptroller and Auditor General:
Sir,

1. You are aware that the Committee on Public Accounts has repeatedly drawn the attention of Parliament to the question of further extending the audit which you now apply to the Appropriation Accounts of Military and Naval Services.

2. In 1868, the Committee reported their opinion "that the time "had arrived when the propriety of extending the audit of Naval "and Military Accounts by the Comptroller and Auditor General "(so as to include some part of the examination as to authority and "voucher now conducted by the departmental auditors only) should "be considered by the Treasury and by Parliament, and they "recommend that this subject should be considered by an official "committee during the recess. The labours of such a committee "should be extended to the question whether an independent audit "of Army and Navy Store Accounts is practicable."

3. In 1869, the Committee reported "that the relations of the "audit of the Comptroller and Auditor General, and the internal "examination by the chief departments of account of their "expenditure might, with advantage, be considered by Her Majesty's "Government before the commencement of next Session."

4. In 1871, they said that "They have made inquiry as to the "changes in the system of internal audit recently introduced into "the War Office, and have appended to their Report the important "evidence given by Mr. Stansfeld, Lord Northbrook, Sir H. Storks, "and Captain Vivian upon that subject.

"They are satisfied that the functions of the Comptroller and "Auditor General, in relation to the audit of War Office Accounts, "are not in any way affected by these changes, upon which "accordingly they have no observations to make.

"The Public Accounts Committee having, however, upon two "occasions in past years, recommended that an inquiry should be "undertaken by the Treasury into the propriety of extending the "audit of Naval and Military Accounts by the Comptroller and "Auditor General, think it right to observe that no official action "seems hitherto to have been taken in reference thereto."

5. In 1872, and again in 1874, the Committee again alluded to the question, and in 1875 they stated that "they had inquired as to the "progress made in the question of Military and Naval Audit. The "Treasury have sketched a plan for the audit of War Office "expenditure, and they hope to obtain the co-operation of the "Comptroller and Auditor General to mature it.

"The plan is in principle similar to that which is now in process "of being applied to the Revenue Departments, and the same "principle would be applicable to the Admiralty Accounts.

"Your Committee trust that the work of settling these long-"pending questions may now be prosecuted without further "interruption, and before long be disposed of."

6. These passages indicate clearly the opinion of the Committee, unchanged through a series of years, that the examination at present applied by the independent auditor to military and naval expenditure is not sufficient. My Lords entirely agree with the Committee, and as it is left to them to reduce to a practical form the general instruction thus given to them, they proceed to consider the scope and limits of a scheme which would give to Parliament a guarantee that all its grants have been duly and faithfully applied, but would not involve unnecessary repetition of labour, or unnecessary interference with the current business of administration.

7. Before undertaking to propose such a scheme, my Lords have given full weight to the high authorities who have held that no extension of military and naval audit is necessary.

It appears to them that before 1862, or indeed before 1866, there was ample justification for such a theory.

Up to 1862 military and naval expenditure alone (one or two minor accounts excepted) was subjected to an audit on behalf of Parliament. The expenditure of the Revenue Departments, which had only a few years previously been brought under the control of Parliament, and that of the Civil Departments was, as far as concerned Parliament, absolutely unaudited. My Lords do not intend to convey that this expenditure was actually unaudited; the larger portion of it was examined very effectually by the Commissioners of Audit on behalf of the Treasury; but Parliament, nevertheless, had no information as to the appropriation of a very large part of the supplies which it voted year by year. It is a fact that before the passing of the Exchequer and Audit Act no account of the actual expenditure of the nation was laid before Parliament. It would have been, indeed, very difficult, if not impossible, to have prepared such an account, for the accounts prepared in the Departments and submitted to Parliament related for the most part to issues from the Exchequer to the spending Departments, not to the actual expenditure by those Departments..

8. It is clear, therefore, that at that time the audit applied to Naval and Military Accounts under the Acts of 1832 and 1846 was the most complete in the public service. It was the model upon which Parliament proceeded in framing the Exchequer and Audit Act, but the audit applied to the accounts of the Revenue and Civil Departments under that Act has been of an extended and improved type, while that applied to the military and naval expenditure has remained unaltered. Thus the system which, at the commencement of 1866, was the most complete within the public service, has, in 1876, become the least complete, and therefore that which most urgently requires revision. My Lords indeed believe that even many of those who have studied such matters are hardly aware of the revolution in the public accounts that has taken place under the Exchequer and Audit Act, through the Reports of the Comptroller and Auditor General, addressed to the House of Commons. These Reports are submitted to the judgment of the Public Accounts Committee, and every irregularity, which in former days would have been judged and buried within the walls of a Department, is examined and reported on, and the financial administration of the Civil Departments is thus subjected to public criticism. It may indeed be maintained that, if the First Lord of the Treasury, or a Secretary of State, should order expenditure contrary to Act of Parliament, or to the established rules of the Service, or of the Department over which he presides, the fact is certain to be made known to Parliament by the independent Auditor in his Report upon the Appropriation Account of the Vote to which such expenditure is charged.

9. This great administrative reform has been gradually effected during the ten years which have elapsed since the passing of the Exchequer and Audit Act.

10. The reduction of the varying forms in use throughout the Civil Service to one principle of account, and the education of accounting officers, so as to ensure willing compliance with the fair requirements of the Comptroller and Auditor General, has been a work of time and labour, but the success of the measure may be tested by the reports of the Comptroller and Auditor General on the Appropriation Accounts of the whole Civil Service, and of the Revenue Departments, for the year 1874–75, now under examination by the Public Accounts Committee.

11. These reports testify to a regular and orderly administration of the public money entrusted to the various Departments during the year. If exception be made of certain questions which have stood over from former years, and which are approaching settlement, the irregularities are few, not of an important character, for the most part admitted, and due also for the most part to casual oversight, not to ignorance or intention. My Lords gratefully acknowledged

the result, as showing the efficacy of the independent audit administered by the Comptroller and Auditor General, and the completeness and readiness with which the Departments have accepted and carried out the principles of the new system, and if, on the one hand, the responsibility of this Board to Parliament for financial order throughout the Service has been rigidly enforced, on the other hand, my Lords have, with the co-operation of the Comptroller and Auditor General, been enabled to exercise far more completely than previously, the control intrusted to them by constitutional usage, and essential to the maintenance of that financial order for which they are responsible

12. Under this system of audit, accounts of the appropriation of the several Supply Grants comprised in the Appropriation Act of each year, are prepared by the several Departments charged with the expenditure of such grants, and are forwarded by them to the Comptroller and Auditor General, who is directed by the 27th Section of the Exchequer and Audit Act to examine them on behalf of the House of Commons.

13. He is to ascertain, firstly, whether the payments which the accounting Department has charged to the grant are supported by vouchers or proofs of payment. In so doing he is to test the accuracy of the casting and computation of the several items of the vouchers, but he may dispense, the Treasury consenting, with this minute examination of the items, if they have been certified as correct by officers of the Department specially authorized to examine them.

14. He is to ascertain, secondly, whether the money expended has been applied to the purposes for which Parliament granted it. Lastly, the Appropriation Accounts, with the Reports of the Comptroller and Auditor General thereupon, are to be laid before the House of Commons.

15. It should be added that the Comptroller and Auditor General is directed to ascertain, at the request of the Treasury, whether the expenditure included in an Appropriation Account is supported by the authority of the Treasury, and to report to the Treasury any portion of such expenditure incurred without that authority, and if the Treasury do not sanction such unauthorized expenditure, the Comptroller and Auditor General is to report it to the House of Commons as not properly chargeable to the Vote.

16. Such is the examination to which the Appropriation Accounts of the Civil and Revenue Departments are subjected on behalf of the House of Commons and the Treasury. It secures to Parliament the guarantee of a very minute check exercised by an independent auditor, the minuteness of that check being only relaxed to save the needless repetition of the mere clerical labour of casting and computation, when departmental arrangements, in his opinion, and in that of the Treasury, afford sufficient security for the correctness of those operations.

17. My Lords have already shown in paragraph 8 that this principle of detailed audit is not of universal application throughout the service, and that the Army and Navy Departments are at the present time subjected to a much less stringent check than the Civil and Revenue Departments. Very high financial authorities, as has been stated, have held, indeed, that it would not be expedient to extend in any great degree the powers of the Comptroller and Auditor General in respect to the great Departments of expenditure, and Parliament has so far endorsed that opinion, that it has in the 29th Section of the Exchequer and Audit Act distinctly sanctioned the continuance of the practice in force at the time of the passing of the Act, so far as regards Military and Naval Accounts. It enacts that the Comptroller and Auditor General, after satisfying himself that the accounts of those services bear evidence that the vouchers have been completely checked, examined, and certified as correct in every respect, and that they have been allowed and passed by the proper departmental officers, may admit the same as satisfactory evidence of payment in support of the charges to which they relate.

18. My Lords will not now notice the discussion which took place between yourself and this Board on the subject of your powers under this section. It will suffice to point out that the section explicitly sanctions a continuance of the audit introduced into the Naval and Military Services by the Acts of 1832 and 1846 respectively, and to show in what respects that audit differs from the more complete audit applied to the Civil and Revenue Departments. The latter imposes on the Comptroller and Auditor General the duty of ascertaining that the accounts of all moneys provided by Parliament for the service of the year.—

1. Are supported by proper vouchers, and are ordered by proper authority.
2. Are accurately computed.
3. Are applied to the purposes for which Parliament voted the money.
4. Are in accordance with Statute.
5. Are in accordance with Treasury authority.
6. Are in accordance with the formal regulations of the Department.

But in auditing Military and Naval Expenditure the Comptroller and Auditor General sees that a stated sum has been expended, and he receives the explanation described above of the Department that it has been expended on a certain object. He satisfies himself that Parliament has provided money for that object, and that this particular sum has been charged to the Vote in which such provision has been made, and to the proper sub-head of that Vote, as set forth in the Estimates laid before Parliament.

19. In other words, he accepts more or less the evidence of the Departmental Examining Officer on heads 1 and 2, and upon the faith of that evidence he certifies that the money has been expended upon the services for which Parliament voted it, but upon such an examination alone he can never be in a position to certify of his own knowledge to the last three heads.

20. The anomaly of applying two principles of audit to the grants of Parliament is not so unreasonable as might at first sight appear to be the case. The Civil Service consists for the most part of a number of comparatively small offices, within which no practically independent spending and examining branches can be organized.

21. But a great department like the War Office or the Admiralty is, in reality, not one department, but a collection of offices as independent of each other as if they were separate offices, excepting only that they are dependent on a common chief.

22. In the War Office and Admiralty, the account branch is entirely separate from the branches which initiate or sanction the spending of money, and except to an insignificant degree, has no interest or voice in the expenditure which it examines and records. It is, of course, absolutely necessary that the political chief of such a department should have under him an account branch of his own, which must examine and report to him the regularity of the payments made in his name, and for which he is responsible to Parliament. This work of examination must, therefore, be done within the department itself, and it must precede any examination by the independent auditor.

23. If, then, the Comptroller and Auditor General were instructed to examine Military and Naval Accounts in detail, his examination must be subsequent to, and travel over the same ground, as that of the departmental examiner, and considering the magnitude of the work, it must, my Lords consider, be conducted not at the Audit Office but within the walls of the office which has ordered the expenditure to be subjected to examination.

24. It has been suggested, with a view to meet the difficulty of a double examination, that the accounts branch of the War Office and Admiralty should be entirely independent of the Secretary of State and of the Lords of the Admiralty, that they should be members of

the Audit Office, and dependent solely on the Comptroller and Auditor General. My Lords, however, are unable to entertain such a proposal, because it appears to them to rest on a vicious principle. It would, in fact, relieve those great officers of a most important part of their responsibility. As administrators they are bound to see that the Services which they direct are duly maintained, and that the expenditure incurred for that purpose is duly and orderly met. The proposal is open to the further objection that it would mix up the Comptroller and Auditor General in the work of administration, a confusion of functions that could not fail in the end to impair his *quasi* judicial position.

25. It is his business to examine the completed accounts of the Executive Government, and to report upon them to the House of Commons. It is not his business to prepare or complete those accounts for the satisfaction of the Executive Government.

26. My Lords, having now reviewed the existing system of audit, having described the difference between the two principles in operation, and pointed out the direction and limit of practical reform, proceed to consider the specific nature of the reform which they propose, with your co-operation, to adopt, and to lay before the Public Accounts Committee.

27. It may be taken for granted that the present limited audit of naval and military expenditure cannot be continued. The Committee of Public Accounts, as has been shown at the commencement of this letter, have expressed decidedly and repeatedly their opinion to that effect.

28. My Lords have expressed also their concurrence with that decision, and though Parliament has sanctioned in the Exchequer and Audit Act the continuance of the existing system, it added a proviso which distinctly contemplated the advisability of modifying that system, when in the 29th section it directed that if the Treasury should desire any vouchers relating to the appropriation of the grants for Army and Navy Services to be examined by the Comptroller and Auditor General in greater detail, the Comptroller and Auditor General should cause such vouchers to be subjected to such detailed examination as the Treasury may think fit to prescribe.

29. The limit of a measure of reform is, of course, the detailed audit, to which the Civil and Revenue Accounts are subjected. My Lords have indicated the objection to such a measure. It would necessitate heavy expenditure, and the doing twice over of work which has already been once effectively done. As a result, the Audit Office establishment would, in all probability, be more than doubled, at a cost of something like £40,000 a year.

30. The inquiries instituted by this numerous staff suddenly installed at the War Office and Admiralty, could hardly fail to impede the current business of the departments, and the result would engender a spirit of opposition to the audit itself, which it is most desirable should be avoided.

31. As far, however, as my Lords are aware, the application of a detailed audit, in the full meaning of the term, to naval and military grants, has not been seriously advocated. It is clear that Parliament did not contemplate it at the passing of the Exchequer and Audit Act, otherwise it would not have made the special exception in favour of those services contained in the 29th section, to which allusion has been made, while the proviso at the end of the section leaves to the unfettered discretion of the Treasury the regulation of any extension of the audit which experience or circumstances may show to be necessary. The Committee of Public Accounts on their side have never suggested a detailed audit. They have, indeed, left it to the responsible Government to draw up the scheme of extension, but they have expressed an opinion that Parliament and the Treasury should consider the propriety of extending your audit, "so as to include some part of the examination as to authority "and voucher now conducted by the departmental auditor." They

further wished the question to be discussed whether an independent audit of Army and Navy Store Accounts is practicable.

32. Lastly, they do not gather that in this case you yourself favour a detailed audit. They observe that in 1871, and in answer to Question 2728, you stated before the Public Accounts Committee: "It resolves itself into a question of expense; but it depends entirely "as I have repeatedly said, upon the extent to which the examination "may be carried; supposing it were a second detailed examination "of the whole accounts, which I think few persons would venture "to suggest, that of course would entail very large expense. On "the other hand, if it were a more limited examination, and instead "of taking the accounts the Comptroller and Auditor General were "directed to exercise his discretion in examining vouchers as "evidence of payment, that would occupy only a limited staff. In "other words, if the Comptroller and Auditor General had under "his orders a small body of 'revisers,' or a limited detective staff "such as was suggested by an honourable member of the Committee, "to check the charges, sometimes in one branch and sometimes in "another, say for a month or six weeks, or for a quarter, and upon "a principle analogous to that which is in actual operation with "reference to the Revenue Accounts of the Revenue Departments, "then, of course, the expense would be comparatively limited."

33. My Lords have themselves expressed, or caused to be expressed, an opinion more or less in consonance with those to which reference has been made, and they consider that they may safely draw the conclusion that a second detailed examination of the whole accounts of the Military and Naval Services is not in question.

34. These considerations point to a "test" audit as the true solution of the difficulty, for it appears to my Lords to satisfy the essential requirements of an independent audit, and to avoid at the same time unnecessary labour and unnecessary expense. My Lords propose, therefore, to exercise the power conferred upon them by the proviso to the 29th section of the Exchequer and Audit Act, and to request you at once to apply a "test" audit to the vouchers relating to the Appropriation of Army Grants.

35. They consider that this audit should be applied upon a principle that would ensure an examination of all heads of voted expenditure once within a given number of years, say six.

That you should select in each year any Vote, subhead of a Vote, or item of a subhead that you may think fit regulating your scheme of audit for the year proportionately to the period stated in the preceding paragraph.

That you should, if you think fit, examine the same Vote, subhead of a Vote, or item of a subhead as often as you please; in short, that your discretion in the conduct of your examinaion should be absolutely unfettered, and subject only to the general definition of the "test" contained in this letter.

That you should accept the castings and computations on the certificate of the departmental examiner, unless you have reason to question them.

That you should accept the Queen's Warrants and Regulations as the governing authority of the War Office, unless it appear that they are contrary to Statute. That you should be at liberty to ask for Treasury authority in those cases where the previous sanction of the Treasury should have been obtained.

That you should accept the direction of the Secretary of State as sufficient authority in all cases where it is not at variance with Statute, Warrant, or Regulation, and where it does not require Treasury concurrence.

36. My Lords observe that the Army Estimates are separated into two main divisions:—

(1) Personnel.
(2) Matériel.

(1) The personnel, effective and non-effective, includes about three-fifths of the total expenditure of the Army, but although the sums involved are so considerable, it appears to my Lords that the appropriation of the larger part of them admits of comparatively easy test, and that a few samples will test the general correctness of the charge.

37. For example, the pay and allowances of the different arms contained in Votes 1, 5, 6, 7, and 8, absorb nearly six millions sterling. In the computation of these charges, the persons who raise them, check them, direct issue of the money, and watch it to its final distribution, are so many, and so unconnected with the recipient, who has every opportunity afforded him both of learning what is due to him, and of securing the receipt of it, that misappropriation is scarcely possible without speedy detection. The discovery of mere clerical error may be safely left to departmental examination.

38. Again, it appears to my Lords that the same remark may apply to a large portion of non-effective allowances, the grant of which is strictly guarded by regulation, the amount of which is divided into small sums, and the distribution of which is carefully watched until they reach the hands of the pensioners, who know well what is due to them, and who have plenty of opportunity given them to make complaint.

39. On the other hand, establishments, special allowances, special services, contingent allowances, and miscellaneous expenses of various kinds, allow a larger scope to discretion and to irregularity. They, therefore, deserve the special watchfulness of the independent auditor.

40.—(2) Passing to the division of "matériel" which may be said roughly to involve a cost of somewhat more than six millions, my Lords may observe that the same remarks apply to establishments and allowances, &c., in this branch of expenditure as in that which they have called the personnel. The purchase and receipt of stores, however, require a different kind of check, and they would be glad if you would give special attention to this head of charge. More difficult still is the application of an independent check to the expenditure incurred on the manufacture of stores, and on the execution of new buildings and repairs. You will doubtless wish to have opportunity for considering this last point, and for ascertaining by actual test how far an independent check upon work executed by the permanent and paid staff of a Department is practicable.

41. My Lords have now made known to you the general conclusions at which they have arrived. They would prefer to regard the undertaking in the first instance as an experiment, and they would be glad to learn that you accept it in that sense, and that you would propose at the end of a reasonable period of time to communicate to them the results which you may have obtained, and the views which your experience may have led you to form. For this purpose they think it best that you should make your own arrangements, adding that they will be prepared to provide the cost of the temporary assistance that you will require.

42. It is evident that the task before you is one of some delicacy, and that it will be most desirable to secure, as far as possible, the co-operation of the great department, which is about to be subjected to a check more stringent than has hitherto been imposed upon it. It is above all things essential, in my Lords' opinion, that the end in view should be attained by means that will recommend themselves to the judgment of all concerned, and that every effort should be used not to impede the current administration of the War Department.

It should further be distinctly understood that, in the necessary discharge of your duties, you will in no way interfere with the discretion which the law gives to the Secretary of State, and that your presence in the War Office does not in any degree weaken or impair his authority. My Lords feel sure that you will agree with

them upon this point, and also in the necessity for cautious and considerate action in the first instance.

43. The measures which they propose are, of course, equally applicable to naval and to military expenditure, but they intend to ask you now to confine your attention to the latter, with a view to attaining a more complete result. At the end of a period of trial which they contemplate, they will then consider with you the permanent arrangements which should be made for the extended audit of military accounts, and they will consult with you and with their Lordships of the Admiralty on the adoption of a similar scheme for naval expenditure.

Note.—The extension to Navy is dealt with in the Reports of the Comptroller and Auditor General on Navy Accounts, 1876-77 (Parl. Paper 56/1878), page 10, and 1877-78 (Parl. Paper 76/1879), page 17, and in the Second Report of the Public Accounts Committee, 1878, para. 21, see p. 85.

For the application of similar principles to Revenue Departments by Treasury Minute of 27 March 1899, and to Old Age Pensions by Treasury Minute of 31 August 1909, see pp. 423–5 and p. 514 respectively.

REPORT, 1877. H.C. 217.

Treasury Minute, 31 October 1877.

CIVIL SERVICES.

CLASS I., VOTE 26.—LIGHTHOUSES ABROAD.

Special Subheads.

4. The question arises in connexion with this and the Board of Trade (Vote 8, Class II.) Account, as to the proper mode of charging a payment, which has been made for a service provided for by a Vote, but which does not fall under any of its subheads, when authority for raising a new subhead has not been obtained from the Treasury before the total of the grant has been exceeded.

5. The Comptroller and Auditor General suggests that the expenditure of £200 5*s.* 2*d.*, which had been charged under a new subhead, "Tunis, Cape Bon," should have been temporarily defrayed from the Civil Contingencies Fund, inasmuch as there were no funds to meet it at the time when authority to raise the new subhead was applied for. It was stated to your Committee that, in the view of the Treasury, any excess of expenditure upon a Vote should be shown upon the Account, and that if an advance were made from the Civil Contingencies Fund to defray such expenditure, that object would not be obtained; and also that the use of the Civil Contingencies Fund should be as limited as possible, and confined to the two objects of enabling the Treasury to make a cash advance to departments which, owing to unforeseen claims upon them, had arrived at the limit of their Grant; and to provide funds for new and utterly unforeseen services.

6. In answer to the objection that, if the Treasury sanction an excess upon a Vote, it is, in fact, sanctioning money being paid from one Vote which properly belongs to another, it was stated that the Treasury does not, by authorizing the raising of a new subhead, sanction the excess of expenditure, which it has no power to do, but only directs the department which has incurred the expenditure to leave it on its Appropriation Account, so that the irregularity may be brought before the Committee on Public Accounts.

7. Your Committee concur in this opinion, and consider that there is no difference in principle between the case in question and that of a deficit caused by an excess of expenditure under authorized subheads. They therefore recommend that all final payments made for any service provided for by Parliament, should be charged on the Vote for that service, and shown on the Appropriation Account.

The Board of Trade will observe from paragraphs 4 to 7, respecting the Account for Lighthouses Abroad, that the Committee agree with my Lords as to the propriety of recording in the Appropriation Account of a Vote for a given service, all payments made in respect of that service within the year, whether in excess of the Vote or not, and whether or not it be requisite to open a new subhead for any payments that are so in excess.

The observance of this rule in no way implies that my Lords sanction any payment in excess of the Vote, an act which is beyond their power; but it ensures that such an irregularity, whenever it occurs, is brought fully and promptly to the knowledge of Parliament, for allowance or disallowance, as Parliament may see fit.

CLASS II., VOTE 21.—PAYMASTER GENERAL'S DEPARTMENT.

Employment of Redundant Officer.

17. The force of the objection of the Comptroller and Auditor General to the employment of a redundant officer who had failed to obtain a fresh Civil Service certificate, is admitted by the Treasury; but it is stated that the sanction to his employment was given in the full expectation that he would obtain such certificate.

CLASS IV., VOTE I.—PUBLIC EDUCATION, ENGLAND AND WALES.

Local Audit.

38. The Comptroller and Auditor General states that he has been obliged to certify to the correctness of the Account of the Education Votes with more reserve than he could have desired, owing to the delay which has occurred in the settlement of the question as to the best mode of subjecting these Accounts to a more detailed examination than has hitherto been practicable. It apears that, owing to their voluminous character, it would not be possible to transmit to the Comptroller and Auditor General certain documents required by him in support of the expenditure without considerable cost and inconvenience to the Education Department. Your Committee have, however, learnt with satisfaction that a proposal made by the Comptroller and Auditor General to meet this difficulty by the local examination of the Accounts, has been accepted by the Treasury; and are of opinion that it is very desirable that arrangements should be made for such local examination without further delay.

My Lords are happy to record that the arrangements for a local examination of the Education Vote Accounts, which the Committee recommend, are now in operation.

VOTE 2.—SCIENCE AND ART DEPARTMENT FOR THE UNITED KINGDOM.

Expenditure on Special Service.

42. Your Committee agree with the Comptroller and Auditor General that in the case of a service which, like the Exhibition of Science Apparatus at South Kensington, has not been provided for by a Vote, the expenditure should be shown under a new and separate subhead.

The Committee recommend . . . that "a new and separate subhead" should be opened for expenditure upon a service like the Exhibition of Scientific Apparatus at South Kensington not provided for by a Vote. The object of their recommendation is to show the expenditure distinctly on the face of the account. But my Lords venture to think that this object can be attained with less difficulty by

appending to the Appropriation Account a statement of the expenditure for the service in question, as brought to charge under the normal subheads of the grant.

If the present practice were to provide specific sums under distinct subheads for each temporary exhibition foreseen at the time of preparing the Science and Art Department Estimate, my Lords would agree that expenditure upon an unforeseen exhibition ought to be charged to a new subhead. But such is not the practice. Sums are provided for general services, such as preparation of catalogues, carriage of objects, police, furniture, wages, and travelling, which sums are applicable to a variety of purposes as occasion may arise. To select portions of the expenditure upon these general services and charge them en bloc *to a new subhead introduced to cover some particular exhibition would be an attempt to combine two irreconcilable principles of classification. The error into which the Science and Art Department fell, in the case of the Exhibition of Scientific Apparatus, was not the omitting all provision for it from the Estimate, but the omitting to provide for it sufficiently, and yet more the omitting to obtain Treasury sanction before the excess expenditure was incurred. A recurrence of such irregularities will, my Lords trust, be prevented by the Minute of their Lordships of the Committee, dated 18 December 1876.*

But whenever a special service not distinctly contemplated in the Estimate has occasioned expenditure considerably exceeding the normal grants under a variety of subheads, my Lords think that a statement of the expenditure for such special service within the year ought invariably to be appended to the Appropriation Account; this would bring the irregularity distinctly under notice, and would, in their opinion, meet the views of the Committee.

I am to request that such a statement of the expenditure on the Scientific Apparatus Exhibition, divided according to the subheads under which it has been brought to charge, may be appended to the Appropriation Account of the Science and Art Department Vote for 1876–77.

VOTE 12.—PUBLIC EDUCATION, IRELAND.

Account under Estimate Subheads.

45. Your Committee concur in the opinion expressed by the Comptroller and Auditor General, that the Accounting Officer would have acted more correctly if he had stated the grant in the Appropriation Account under the several subheads as they appear in the Estimates.

My Lords must state their own opinion more strongly. They consider it to be wholly incorrect and irregular for an accounting officer to alter the sums shown under the subheads in the Estimate.

The letter from this Department to your Board of 16 October 1876, was based upon an erroneous account, which converted five deficits into fictitious surpluses, and equivalently diminished one surplus that was real.

My Lords request that that letter may be at once returned to them, with a corrected account and explanatory schedule, in order that a valid authority covering all the actual excesses may be substituted for it.

EXTRA RECEIPTS.

51. Your Committee have asked for, and have received, explanations in certain cases in which there has been a material difference between the estimated amount of Extra Receipts and the amount paid over to

the Exchequer. Your Committee consider it desirable that the explanation of the causes of any such variation, which must from the nature of these receipts occasionally occur, should be provided in the Account.

My Lords have for some time been of opinion that the Public Departments required to be reminded that these receipts are annually becoming a more important branch of revenue, and that the estimates of them must, therefore, be made with greater care.

The last two Estimate Circulars contained some precise instructions upon the subject, but they seem to have escaped the notice of many Departments.

My Lords desire to impress upon each Accounting Department the duty of—

1. *Carefully estimating the amount of extra receipts, and fully informing this Board, at the time the Departmental Estimate is sent in, not only of the aggregate amount of such receipts, but of their nature, and of the amount of each chief class; specifying also the amount and kinds that will be collected in stamps.*
2. *Paying to the Exchequer, as early as possible, in each month or quarter, as may be settled with the Treasury, the full amount of Cash Extra Receipts realized in the last preceding month or quarter.*
3. *Collecting and, so far as the prescribed periods of payment will permit, paying into the Exchequer, within the financial year, all the Cash Extra Receipts that properly belong to the year.*
4. *Distinctly explaining, in the notes to the Appropriation Account, any difference that may appear between the Estimate of Cash Extra Receipts and the actual result.*

In order that my Lords may have prompt and detailed information of these receipts, they request that every Accounting Department will forward to them, upon the day upon which directions for the transfer are given, a statement of particulars (on a form which will be supplied by the Treasury) of the miscellaneous receipts directed on that day to be transferred to the Exchequer.

A copy of this statement should be forwarded, at the same time, to the Comptroller and Auditor General.

If this regulation be observed, it will no longer be necessary to furnish the Paymaster General, as heretofore, with details of the sums which he is directed to transfer to the Exchequer.

My Lords further desire that each Department accounting for Civil Service Votes, should transmit to this Board, so soon as the Appropriation Account of each year is completed, a copy of the balance sheet showing the balances in respect of voted and other moneys accounted for by such Department.

Deficits.

Report of Committee before Excess Vote is taken.

52. Your Committee cannot conclude their Report on these Accounts without again expressing their satisfaction with the general working of the system established by the Exchequer and Audit Act. They consider, however, that it is of great importance that the attention of Parliament should be specially directed to all cases in which an excess of expenditure has been incurred beyond that sanctioned by Parliament. They therefore think it very desirable that the excesses should be reported on by your Committee before they are voted in Committee of

Supply, in order that attention may be called to any excess involving a question of principle, and that such excess may, if desirable, be put by itself in Committee of Supply.

My Lords fully concur in this recommendation. It of course will rest, in the main, with the Committee itself to carry it into effect. This year, however, the delivery of the Appropriation Accounts for Civil Services and Revenue Departments did not take place until 22 February, or nine days after they were ordered to be printed.

Unless the accounts are delivered earlier, it is scarcely possible for the Committee to report upon excesses in time to allow of their being voted, reported, provided for by a Ways and Means Act, placed at the disposal of the Treasury by Royal Order, issued from the Exchequer, and paid to the administering Departments, before 31 March.

My Lords are sure that the Comptroller and Auditor General will concur with them in endeavouring to secure the delivery of the Appropriation Accounts within seven days, at latest, of the meeting of Parliament, as prescribed by Statute.

Revenue Departments.

Vote I.—Customs.

Agent Department—Date of Charge.

53. The question which has been under discussion for some years, as to the date of recording payments made by one Department of the State for another Department, has been decided in a manner satisfactory to the Comptroller and Auditor General, in whose opinion your Committee concur. A circular has been issued by the Treasury to the several Departments requiring uniformity in the Public Accounts on this point.

T.L. 21 September 1876 (H.C. 18/1877, Civil Services and Revenue Appropriation Accounts, 1875-76, p. 329).—One Department of the State frequently acts as agent, and makes payments for another Department, obtaining afterwards repayment from the latter or Principal Department.

A question has arisen whether these payments should be finally charged to the Vote of the Principal Department, as occurring at the date of advance by the Agent Department, or at the date of repayment by the Principal Department.

After much discussion between the Treasury and the Audit Office, and before the Public Accounts Committee, my Lords have come to an agreement with the Comptroller and Auditor General that the payments in question should be charged against the Vote of the Principal Department, as occurring at the date of the advance by the Agent Department, provided that the Appropriation Account of that Vote, for the year in which the advance was made, be still open.

If, however, the Appropriation Account be closed, the payment must be charged to the earliest Vote of the same account still open at the Principal Department, and, if there be no longer a Vote for that special service, application must be made to this Board to provide funds.

My Lords wish it to be understood by all accounting officers that this principle of adjustment is not to interfere with the prompt closing and rendering of Appropriation Accounts, and for that object they request that the claims which one Department has on another, may be forwarded without delay, and the repayment of advances adjusted as early as possible. They must add, however, that, if delay should be the consequence of their decision, they will probably find it necessary to make the date of repayment the date of charge in all cases.

Telegraph Capital Account.

Disallowances.

76. Sections 9 and 10.—The Committee of Public Accounts, in their Second Report of 1876, recommended that charges amounting to £2,236 10*s.* 3*d.* should be disallowed. The proper course to be pursued with respect to these disallowances has been under the careful consideration of the Treasury, and their views are expressed in the Minute of 13 March 1877 [*see below*]. The sums disallowed were in the first place personally charged against the officer of the Post Office responsible for the expenditure, and it was proposed that steps should be taken to enforce the responsibility unless due cause were shown by the Postmaster General for arresting proceedings. After communication with the Post Office, it was decided that the officer responsible for the expenditure was the late second Secretary, Mr. Scudamore. Inasmuch as the payments in question are stated not to have come under the personal cognizance of the then Postmaster General, and were of an amount not exceeding that of payments ordinarily made under the powers necessarily delegated to a subordinate, your Committee concur in this decision. They think, however, it is important that the responsibility of the Parliamentary chiefs for the general administration of their Departments should be fully maintained; and would, therefore, observe that, although in their opinion the pecuniary liability attaches in the first place to the permanent accounting officer, the Parliamentary chief is by no means free from responsibility for all expenditure which by its amount or character should attract his attention.

77. For the reasons stated in their Minute, the Treasury do not propose to enforce the personal liability of Mr. Scudamore. In order, however, to ensure the submission of such serious irregularities to Parliament, it is proposed to ask the House of Commons to vote a sum which will enable the Treasury to adjust the Account.

78. Your Committee concur in the opinion of the Treasury, that whilst the irregularity was of a very serious nature, Mr. Scudamore is to be entirely acquitted of any charge of *mala fides*, and that the irregularity was due to a grave error of judgment on his part.

79. They therefore approve of the proposed course of procedure, laying down as it does the principle that disallowances recommended by the Committee of Public Accounts can only be removed by the action of Parliament.

80. The Comptroller and Auditor General, who entirely agrees in the general principles of the Treasury Minute, raises the question whether, as the disallowances were made not upon a Vote, but upon the Telegraph Capital Account, the object in contemplation might not be effected with perhaps even greater exactness of account, by a Resolution of the House of Commons authorising the expenditure in question to be charged against the Capital Account. In the opinion of the Treasury, however, with which your Committee agree, the principle that any sum recommended for disallowance by the Public Accounts Committee, must be actually repaid to the Vote or Fund from which the disallowed expenditure was originally defrayed, is best maintained by leaving the persons who are responsible for the expenditure chargeable therewith, until the disallowance is made good by a Vote of the House of Commons.

The Committee concur in the views expressed in the Treasury Minute of 13 *March* 1877, *respecting the disallowances on the Telegraph Capital Account for* 1874–75, *amounting to* £2,236 10*s.* 3*d.*

My Lords will submit a Vote for the amount to the House of Commons early in next Session.

TREASURY LETTER, 13 March 1877, to Postmaster General.—The Committee of Public Accounts, in one of their Reports issued during the year 1876, recommended the disallowance of certain payments which had been made by your Department on account of the Telegraph Service, and the Lords Commissioners of Her Majesty's Treasury decided, in a letter addressed to you on 7 December last, that the officers of your Department, who were at the time responsible for making those payments, must be held personally liable for them, and that steps should be taken to enforce their liability, unless your Lordship wished to show cause for arresting proceedings.

In reply, your Lordship agreed that the responsibility of officers charged with the duty of accounting for public moneys ought to be enforced with all practicable strictness; but you raised the question whether it is desirable in cases where overpayments or payments upon insufficient authority have taken place in consequence of an error of judgment, and in which there is no charge of *mala fides*, that the same severe measures should be adopted as in the case of actual malversation of public funds.

You proceeded to state your belief that my Lords are not disposed to regard the payment under notice otherwise than as coming under the former category, and you expressed a hope that if they concurred with you in thinking that a distinctive method of treatment should be observed, it might be possible to satisfy the requirements of the case, without taking proceedings to enforce the personal liability of the individuals responsible for the expenditure which has been disallowed.

I am to assure you, in reply, that your representation will have its due weight with this Board; but my Lords, before considering whether or not to enforce personal liability, must ascertain the name and position of the officers whom the decision of the Treasury, confirmed as it is by the verdict of a Committee of the House of Commons, has left personally liable.

The Parliamentary chiefs are of course, in the first instance and generally, responsible to Parliament for the orderly administration of the Departments entrusted to their charge. The service of the State, however, could not be carried on if they did not delegate considerable powers to their subordinates. Hence in every large Department the permanent officers have, and must have, a large discretion in authorizing expenditure, and means must be found for bringing home to them individual responsibility for the rightful exercise of this power. Such means in fact exist. A general rule of the public service imposes on every Department charged with the expenditure of public money the duty of preparing the account of such expenditure and rendering it to the Comptroller and Auditor General; and this duty is performed on behalf of the Department by an officer who signs the account, and is styled the accounting officer of the Department. Under present regulations he is usually the permanent chief, but in several of the more important Departments the duty is entrusted to the chief financial officer of the Department. The accounting officer is primarily responsible for the correctness of his account, and he is personally liable for irregular payments of all kinds, including those which have been made on insufficient authority. In order to discharge himself of his liability for irregular payments of the last-named description he must show, 1. That in making the payment he was obeying the written authority of his superior officer; and, 2. That he had made known to his superior officer in writing that he had no funds legally available for the service in question.

This description will suffice to explain generally the method by which under existing regulations the responsibility of the several officers concerned in an irregular transaction can be traced and defined.

The special payments which form the subject of this letter . . . were made or authorized to be made during the period that Mr. Monsell, now Lord Emly, was Postmaster General, and at the time when they occurred the regulation appointing the permanent head or the chief financial officer accounting officer for the Department had not been laid down, the account being signed by the Postmaster General himself, who thus, in addition to his general responsibility to Parliament, assumed the technical and individual responsibility for the correctness of the accounts which belongs to the accounting officer.

Your Lordship, however, states authoritatively "that the pay-"ments in question did not come under the personal cognizance of "the Postmaster General (Mr. Monsell)," and in reply to a further question you inform this Board that they "were made under the "authority of the late Second Secretary of the Post Office, "Mr. Scudamore."

My Lords may observe in passing that this instance proves the wisdom of the regulation contained in their Minutes of 14 August 1872 and 20 December 1872. It will be remembered that the Committee of Public Accounts in the Second Report of the Session of 1872 remarked that the appointment of officers to perform the function of accounting officers by the Treasury had proceeded on no fixed principle. They added that it was impossible that such an anomalous state of things could be permitted to continue, and they recommended that the whole of these appointments should be reconsidered and placed upon a uniform footing in future. The Treasury accordingly laid it down in the Minute of 14 August 1872 that it was not expedient that Parliamentary chiefs of Departments should act as accounting officers, inasmuch as the temporary character of their tenure of office, and the burthen of their Parliamentary, in addition to their strictly executive duties, unfitted them, in the opinion of the Treasury, for a real and satisfactory performance of the duties connected with the rendering of the Appropriation Accounts. Constitutional usage might require the *additional* signature of the Minister, but the Treasury stated their intention to nominate as accounting officer, whenever practicable, the permanent head of the Department. They modified this intention so far as to substitute, by their Minute of 20 December 1872, the chief financial officer in certain great Departments for the permanent chief. The instance under review shows that the signature of the Minister afforded no guarantee for the correctness of the account, and would have been of no assistance to this Board in tracing out and fixing individual responsibility.

Returning now to the main subject of this letter, namely, the liability for the disallowed expenditure, my Lords, having ascertained that Mr. Scudamore is the officer personally responsible, proceed to consider whether it would be desirable to institute proceedings in order to enforce that responsibility. They cordially agree with your Lordship that there is and has been no imputation of malversation in connection with these transactions. They further entirely acquit Mr. Scudamore of any charge of *mala fides*. They cannot, however, entirely agree with your description of the transactions, as overpayments or payments on insufficient authority which have taken place in consequence of an error of judgment. You are aware that after the Committee of Public Accounts had examined and reported on the irregular payments to the amount of many hundred thousand pounds, which had taken place in connection with the Telegraph Service, my Lords consented to give their *ex post facto* sanction to whole classes of payments which ought to have had their previous sanction, but which the Comptroller and Auditor General

would not accept on the authority of the Postmaster General alone. My Lords did not on the occasion now in question refuse their sanction because the payments had been made on insufficient authority, but because they disapproved the principle upon which the payments had been made. They declined in consequence to accept any responsibility in connection with them. The Post Office had subsequently a full opportunity of defending those payments before the Public Accounts Committee, but the Committee deliberately confirmed the opinion of this Board.

With this correction my Lords accept your view that the irregularity was due to an error of judgment, and they do not propose to enforce the personal liability which Mr. Scudamore has incurred. They do not, however, think that they ought by a stroke of the pen to relieve that gentleman, or any other officer who may at any time incur personal liability in similar circumstances from a disallowance of so serious a nature, confirmed as it is by the Public Accounts Committee.

They propose, therefore, to ask Parliament to vote a sum to enable them to adjust the account. This course will ensure the submission of serious irregularities to Parliament, and will oblige this Board to show sufficient reason before they relieve a responsible officer from the liabilities which he has incurred.

My Lords propose to lay the correspondence which has taken place on this subject before the Public Accounts Committee.

Interest on Purchase Money.

83. The payments charged in this Account as interest on the purchase of Undertakings amount apparently to £4,602 13*s.* 2*d.* making with the sum of £19,978 6*s.* 6*d.* previously so charged, a total of £24,580 19*s.* 8*d.* It was stated to your Committee that there are outstanding claims from Railway Companies amounting to a large sum, upon which interest may have to be paid. The question, therefore, as to whether this interest should be charged against the Capital Account, or against the Vote Account, is of some importance as regards the future, as well as a matter of strict account for the past. Inasmuch as the income derived from the purchased Undertakings has been treated as revenue, whilst this interest has been accumulating, your Committee consider that the payment is not one which should be properly charged against the Capital Account.

In paragraph 83 *the Committee express a positive opinion that interest on the purchase money of undertakings should not be charged to Capital Account. My Lords do not understand them to go so far as to wish that a Vote should now be taken for the interest paid prior to* 1 *April* 1876, *to the amount of* £19,978 6*s.* 6*d. It will probably meet their views if a note of this previous charge to capital appears in the accounts from year to year, while interest paid subsequently, whenever specified by the arbitrator, is charged to the Telegraph Vote Account; and my Lords desire therefore that this course may be followed, as from* 1 *April* 1876.

A new subhead, called "Interest on Purchase Money of Undertakings," should be opened for the purpose in the Vote Accounts for 1876–77 *and* 1877–78, *and should be inserted in the Telegraph Estimates for future years, until the charge expires.*

My Lords note that the Act 40 *&* 41 *Vict. c.* 30, *sect.* 2, *gives statutory effect to the view taken by the Committee, so far as regards money raised under its provisions.*

ARMY APPROPRIATION ACCOUNT.

Audit of Chelsea Hospital Account.

95. Section 5.—It appears that up to the present time there has been no external detailed examination of payments relating to Chelsea

Hospital, either by the War Office or the Audit Office; but that the Audit of the War Office has been limited to seeing that the payments have not been incurred without the authority of the Commissioners for the Government of the Royal Hospital being duly signified to the Paymaster General; and that a receipt has been furnished for every item in the Paymaster General's Account. The Account will, for the future, under the Chelsea Hospital Act of 1876, be subjected to a detailed examination and audit by the Comptroller and Auditor General.

Extended Audit of Army Accounts.

99. Section 23.—The Comptroller and Auditor General states that to many of the numerous questions raised by his Department as the result of the examination, he had received satisfactory answers, but that on certain points a want of attention to the due authorization of expenditure had been discovered. The questions thus raised, though relating to sums of comparatively small amount, are of importance as matters of principle; for your Committee regard the audit of authority as the essential part of the new system.

Royal Warrants.

100. A large part of the Army expenditure, namely, the pay and allowances of the Army, is made under Royal Warrant. It appears from the evidence of the Accountant General of the Army, that in his opinion "the Comptroller and Auditor General has nothing to do with the Royal Warrants," but that his duty is limited to seeing that the expenditure is authorized by Parliament or by the Treasury. Your Committee cannot concur in this view; by the Treasury Minute of last year (*see* p.61) the Comptroller and Auditor General is expressly directed to accept the Queen's Warrants and Regulations as the governing authority, unless it appears that they are contrary to statute. Without examination of such warrants it is not manifest how it would be possible for the Comptroller and Auditor General to ascertain whether or not any expenditure was properly authorized. Such examination would, of course, be limited to the purpose for which it was instituted, and it would be no part of the duty of the Comptroller and Auditor General to express any opinion upon the Royal Warrant. Your Committee consider that it is open to him, after examination, to state his opinion to Parliament on any points which he may think necessary, in his Report upon the Army Appropriation Account; and it is for the House of Commons to decide in doubtful cases whether the money has or has not been expended in accordance with the intentions of Parliament.

101. By the Treasury Minute of 24 November 1870 it was laid down that all proposed rates of pay and allowances must be submited to the Treasury for approval before they are included in a Warrant which is to receive the Royal Sign Manual.

102. The War Office appear to consider that when such Treasury consent has been given, the new rates of pay and allowances may at once come into force, without waiting for the issue of a new Royal Warrant, which is regarded as a legal record and publication to the Army. Acting apparently upon this view, the War Office have made, in certain cases payments at variance with Royal Warrants, but with the intention of ultimately issuing a new Royal Warrant, which might, if necessary, be ante-dated. Your Committee, regarding an Order under the Royal Sign Manual as a higher authority than the Order of a Secretary of State, or of the Treasury, consider that any payment at variance with a Royal Warrant should only be made under circumstances of emergency.

Although it may from time to time be necessary to provide for temporary and unforeseen requirements, it is desirable to correct any such unavoidable irregularity with as little delay as possible.

The Secretary of State will observe the Committee consider that it is the duty of the Comptroller and Auditor General to examine the Queen's Warrants and Regulations in order to make sure that expenditure is in accordance with them, and that, although it would be no part of his duty to express any opinion, as my Lords understand, upon the general policy of a Royal Warrant, it is open to him, in his Report upon the Army Appropriation Account, to call the attention of Parliament to any points where there may appear to him to have been a divergence from the terms of a Statute or Warrant, or where Treasury sanction may have been necessary for the charge. My Lords concur in this view of the Comptroller and Auditor General's duties, and they also think that no payment should be made at variance with a Royal Warrant, except in circumstances where immediate action is necessary, steps being taken to correct the Warrant or other authority as soon as is practicable.

Notes of Extra Remuneration.

106. Sections 30 and 31.—Where allowances, such as Good Conduct Pay, are paid to whole classes of non-commissioned officers and privates, there would seem to be no sufficient advantage to be gained by noting the fact in each case. In applying the Treasury Minute of 10 September 1876, which was communicated to the War Office, to such cases as those referred to by the Comptroller and Auditor General, the object should be to show, as far as possible, the official emoluments received without unduly crowding the Estimates with notes.

Note.—T.M. 31 October 1877 directed the issue of a circular letter to all accounting departments, including the War Office, and the Admiralty. The following revised circular (23093/14) was issued under date 29 November 1914.

I am directed by the Lords Commissioners of His Majesty's Treasury to draw your attention to paragraph 4 of the Report of the Public Accounts Committee of 1914, which runs as follows:— "Your "Committee recommend that, in cases where extra remuneration is "received by an official in addition to his ordinary salary, the "amount of salary and any other extra payments received by such "official should be shown in the notes."

My Lords concur generally in this recommendation and are pleased to substitute, for the instructions issued in the Treasury circular of 28 August 1897 (4036/97), the following revised instructions to all accounting departments, for their guidance in appending to the Estimates or Appropriation Accounts notes of extra remuneration, pensions, or other emoluments payable to officers whose salaries or pensions are provided for in Parliamentary Grants; the term "salaries" being understood to cover civil remuneration of a permanent character, even though paid at daily or weekly rates.

1. If any officer, whose salary is provided in a particular Vote, receives additional remuneration or a pension from the same or another Vote, or from the Consolidated Fund or any other fund administered by a public Department, or if he receives any other remuneration for services rendered in an official capacity, a note should be made against the Vote in which his salary is provided, showing the amount of the additional emolument, the services for which it is received, and the source from which it is derived.

2. If an officer receives salary concurrently from two Departments, a note should be made against the Vote of each Department showing the amount or scale of salary received from the other Department together with particulars of any additional emoluments.

3. If a pensioner is in receipt of salary or extra remuneration, the notes should be made in the following manner, viz:—

(*a*) In the case of a Civil Pensioner—

(1) The note of pension or extra remuneration should, in the event of his receiving salary, be made against the Vote in which the salary is provided; but

(2) If he is not in receipt of salary, the note of extra remuneration should be made against the Vote in which the pension is provided; and

(3) The note should not be made against the Vote in which the extra remuneration is provided.

(*b*) In the case of a Naval or Military Pensioner—

(1) The note of pension or extra remuneration should, in the event of his receiving salary, be made against the Vote in which the salary is provided; but

(2) If he is not in receipt of salary, the note of extra remuneration should be made against the Vote in which the extra remuneration is provided; and

(3) The note should not be made against the Vote in which the pension is provided.

4. The note of extra remuneration may be omitted when the aggregate amount paid within the financial year to the officer concerned does not exceed £25.*

5. When the additional remuneration is of a recurrent character, but varying amount, there should be noted in the Estimate the probable sum to be received, calculated, if no other data are available, on the average receipts for the three preceding years. The actual amount received should be noted in the Appropriation Account if it exceeds by £25 the sum shown in the Estimate.

6. Notes of a general character will suffice in the case of payments to large bodies of men, which are based on well-defined regulations, such as the Rewards for Revenue detections paid to the Irish Constabulary.

7. Whenever a payment of additional remuneration is made by one Department to a salaried officer of another Department, or to a Civil Pensioner, explicit notice thereof should be sent by the Accounting Officer of the Paying Department to the Accounting Officer of the Department administering the Vote from which the Officer's ordinary salary or pension is payable. The notice should be sent as soon as possible after the close of the financial year in which the payment was made, and not later than the following 31 October.

8. Allowances in lieu of lodging, and commuted allowances in which there are any elements of profit, should be treated as additional remuneration. The fact that an officer is provided with an official residence, fuel, or light at the public expense, should be noted against the Estimate in which his salary is provided.

9. The notes should, as far as possible, be appended to the Estimates in order that the attention of Parliament may be called to the proposed payments before Supply is granted. Where that course is impossible, the notes should be attached to the relative Appropriation Accounts.

10. In every case of doubt, reference should be made to the Treasury.

Savings from Postponement of Works.

111. Section 42.—The Comptroller and Auditor General correctly points out the difference between savings on the Works Vote, and those accruing on the other Army Votes; namely, that they are for the most part mere postponements of expenditure, and do not arise from any economy or reduction of the expenditure. Your Committee are of opinion that this important distinction should be borne in mind, when-

* Limit raised to £50 in 1921. See P.A.C. 8. 1921. 32 at p. 627.

ever Treasury sanction is asked to defray, temporarily, excesses upon other Votes out of savings on the Works Vote.

Paragraph 111 raises a point which seems to my Lords to be of some difficulty. The distinction between a merely temporary saving that arises from postponing or retarding a public work, and a permanent saving due to economical administration or a fall in prices, is real and important; and the Committee are of opinion that "it should be borne "in mind, whenever Treasury sanction is asked to defray, tempo-"rarily, excesses upon other Votes out of savings on the Works Vote."

With the principle which the Committee evidently wish to enforce my Lords are in complete accord. But they may state that, of late years certainly, their sanction has not been asked for applying savings out of the Works Vote, specifically, towards meeting an expense that causes an excess on some other Vote.

Charges Defrayed by the War Office on Behalf of India.

Irregular use of Balances.

119. Much evidence has been received by your Committee, both last year and during the present Session, as to the circumstances under which it was found necessary to apply to Parliament for a grant of £500,000 in part repayment of charges incurred by the War Office on behalf of India, and advanced out of Army Funds during the last six financial years; your Committee have been much assisted in their investigation by the Report of the Comptroller and Auditor General.

120. A considerable proportion of the charges for effective and non-effective services in respect to British regiments serving in India, which have always been defrayed by India, has to be paid in England. Up to the year 1861, the War Office used to pay these latter charges as agent for India; it received the necessary moneys from India, and it paid them without submitting them to Parliament, and adjusted them out of moneys repaid by India. In 1862, it was thought desirable to bring these charges under the notice of Parliament, and to obtain the sanction of Parliament to the expenditure. Their amount was therefore inserted in the Army Estimates, and the sums received from India in repayment were paid into the Exchequer by the Treasury.

121. An important change was made in the Army Estimates for 1870–71, by which the charges detailed in this Account were excluded from the Army Votes, it having been intended that they should be paid directly by the Indian Government without any intervention on the part of the War Office. This intention was stated, so far as a portion of these charges is concerned, by the Secretary of War, in his speech proposing the Army Estimates, and was notified in the Estimates for 1870–71, but no formal or direct communication was made on the subject to the Treasury. The arrangement was found to be impracticable, and the War Office continued the former practice of making the payments, but did so as an advance to the Indian Government, and not as previously on account of a voted service. Of this change in the financial arrangements, no communication was made to Parliament, nor, it is stated, to the Treasury. The arrangement continued up to the close of the year 1875–76, and in the meanwhile the Indian Government continued to make to the Treasury, as previously, payments in respect of all home charges paid by the War Department, and the Treasury continued to pay these sums into the Exchequer as Exchequer receipts.

122. The sums so paid by the Indian Government were, however, all payments on account, as there has been no final adjustment of Accounts since 1870–71, and no information was either asked for or

received by the Treasury as to the precise services for which the payments were made.

123. The sums advanced by the War Office, as explained above, were provided out of the Army balances, and were placed to the debit of the Indian Government in the General Balance Sheet of the War Office. It appears to have been believed by the Accountant General of the Army, that the Treasury was placing to a suspense Account the sums received from the Indian Government in respect of these non-voted Services, in order that the advances might be repaid whenever a final adjustment of account should take place. Your Committee think it right to call attention to the dangerous laxity given to the sound and economical principle that all properly authorized payments should be made from one cash balance, when that principle is held to sanction, as it was by the Accountant General of the Army, payments from that Balance of sums not authorized by Parliament, and which, as in the present instance, may not be recovered for many years.

124. The causes of this serious irregularity, by which a liability exceeding £500,000 has accrued without the knowledge of Parliament, are, in the opinion of your Committee, as follows: first, the absence of direct communication on the part of the War Office to the Treasury when important changes were made in the financial arrangements; and, secondly, the prolonged delay in the final adjustment of Accounts between the War Office and the Indian Government. Although the transaction is one which cannot but cast serious discredit on the system of accounting under which it has occurred, there is no doubt, in the opinion of your Committee, as to the *bona fides* of those responsible for it.

125. Your Committee entirely concur in the view expressed by the Treasury in their letter of 10 April 1877, that all important changes in financial administration should be brought directly to the knowledge of the Treasury, before adoption, for their sanction; and that no indirect notice in any degree relieves the Department so making it from entire responsibility.

126. The delay in the adjustment of accounts between the War Office and the Indian Government, has been caused by the attempt to obtain complete accuracy in the mode of apportionment of the charges. Your Committee have heard, with great regret, that there are still questions of principle pending as to the Accounts for the years 1870–71, 1871–72, and 1872–73; and also that notice has been given by the India Office to terminate the arrangement effected by the Committee presided over by Mr. Bouverie, which has been accepted in principle for the three following years by the two Departments.

127. It was owing to this prolonged delay in the final adjustment of Accounts, that the War Office made no claims for the repayment of the sums which it had advanced, until November 1875, when it applied to the Treasury for a sum of £300,000 on acount. To this delay must also be attributed the fact, that the Treasury had no knowledge that a part of the payments received by it from the Indian Government was made in respect of non-voted services. The evils which have thus arisen, are but the natural results of the state of arrear into which these accounts have fallen; and your Committee cannot too strongly express their opinion that it is absolutely necessary that an early agreement should be come to, both as to the accounts for past years, and also as to the basis of charge for the future.

130. In concluding their observations upon this question, your Committee think it right to state their opinion, that when an important arrangement with respect to the Expenditure and Receipt of public

moneys, like that made in the year 1862–63, referred to above, is subsequently modified, as was done when the War Office paid sums on behalf of India, which had not been voted by Parliament, such modification ought to be explicitly made known to Parliament.

With regard to those paragraphs which relate to charges defrayed by the War Office on behalf of India, my Lords feel sure that the Secretary of State will accept the conclusions at which the Committee have arrived. My Lords have only to add to them the expression of their sense of the importance of making it an absolute rule that no alteration of moment shall be made in the form of the Army Estimates without the previous consent of this Department. Any such alteration should also, as recommended by the Committee, be fully explained to Parliament.

The serious attention of the Secretary of State should be drawn to the remark made by the Committee in paragraph 123, respecting the advance of sums from Army Cash for services not authorized by Parliament.

FIRST REPORT, 1878. H.C. 83.

Treasury Minute, 25 September 1878.

CIVIL SERVICES.

CLASS I., VOTE 24.—LIGHTHOUSES ABROAD.

Excess on Subhead.

7. The special attention of your Committee has been called to the very unsatisfactory character of the Estimates which were presented to Parliament for the Bird Rock Lighthouse, Bahamas. The Treasury refused to sanction the application of savings on other subheads in aid of the excess of £3,940 18*s.* 9*d.* incurred, under Subhead A., for that work, until all the circumstances had been submitted to your Committee. It was explained by the Accounting Officer for the Vote, that the delay of more than four years in beginning the work after the funds had been provided by Parliament, had been due to causes beyond the control of the Board of Trade. The original Estimate, in 1866, of £10,000 for the entire work, appears to have been prepared without sufficient consideration of the nature of the proposed site, or of the delay and difficulties that would probably occur in building on such an exposed and isolated situation. A revised Estimate of £17,500 was framed in November 1875 by the present Inspector of the Works, within nine months of the fixing and lighting of the apparatus, when these causes of increased expenditure should have been *fully* ascertained and allowed for. This Estimate has, however, been exceeded by the sum of £7,214, the total cost having been £24,714. The explanation furnished by the Inspector of this great error in his Estimate, is the delay of six months in the completion of the work, owing to bad weather, and the consequent large increase upon the wages and maintenance of the men employed. Your Committee cannot but think that the two Estimates were both prepared without due care and forethought by the officers appointed by the Board of Trade. Although the difficulty of controlling expenditure on works carried on at a great distance from this country must be great, the Board of Trade must be held responsible for the Estimates presented by it to Parliament, and it will be its duty to take all possible precautions against the repetition of such errors as those now under consideration. The outlay has, however, been incurred, and it does not appear to your Committee that any advantage would now be gained by not following the ordinary course. They therefore recommend that the application of savings on other subheads in aid of the expenditure under Subhead A. should be sanctioned. . . .

In accordance with the recommendations of the Committee, my Lords authorize the appropriation of so much of the savings (£604 19s. 2d.) on Subheads B., D., E., and F. of the Vote for Light houses Abroad, as has not been already applied in meeting excesses on Subheads C. and G., towards covering, so far as it will go, the excess incurred on Subhead A. in the erection of the Bird Rock Lighthouse.

My Lords feel sure that the remarks of the Committee upon the large expenditure and serious delay that have attended the erection of this lighthouse will have due weight with the Board of Trade, and will lead to improvements in the arrangements for carrying on works of this nature.

CLASS II., VOTE 1.—HOUSE OF LORDS.

Deductions from Extra Receipts.

9. Your Committee concur in the opinion expressed by the Comptroller and Auditor General that it is desirable that the amount deducted from the Extra Receipts for the payment of a portion of the Superannuation Allowances should be shown in the Account.

To the Clerk of the Parliaments.

My Lords trust that there will be no objection to a compliance with the recommendation of the Committee, and that the amount of retired allowances paid from the interest of the Invested Fee Fund, or from current fees of the House of Lords, will be noted in future Appropriation Accounts of the Vote, and that the probable amount of the same will be noted in your future estimates.

VOTE 3.—TREASURY.

Orders in Council.

11. The Comptroller and Auditor General calls attention to the sanction given by the Treasury to the transfer, in numerous cases throughout the Civil Service, of persons to the new class of Lower Division Clerks at their former rates of salary, which were in excess of the minimum fixed by the Order in Council of 12 February 1876. The Committee of Inquiry, presided over by Mr. Playfair, recommended that such transfer should be made in certain cases in consideration of special claims, but no provision was embodied in the Order in Council with respect to that recommendation. It was stated to your Committee that the alternative to the arrangement which had been made would have been to continue two classifications working side by side. The inconvenience of such a double classification is manifest. It was also stated that there was serious objection to the passing of a new Order in Council to meet a special case. Your Committee, however, agree with the Comptroller and Auditor General in his opinion that the general discretionary power of the Treasury to regulate salaries, does not extend to cases where salaries have been fixed by Order in Council or other document of superior authority. They therefore think it a matter of regret that the Order in Council was not framed so as to give the necessary discretionary power to the Treasury in the introduction of a new system. The Comptroller and Auditor General has duly called attention in his Reports upon the Accounts of the various Votes, to the instances in which the minimum fixed by the Order in Council has been thus exceeded under the authority of the Treasury. Your Committee, however, do not, for the reasons given above, recommend that any further steps be now taken in the matter, especially as the course adopted by the Treasury ensures the receipt by Parliament of the fullest information as to the manner in which, and the extent to which, the Treasury has exercised its discretion.

My Lords read the 11th and 24th paragraphs of the First Report of the Committee, which relate to the exercise by this Board, under exceptional circumstances, of the right to sanction payment to Lower Division clerks, formerly employed as registered writers, of higher commencing rates of salary than the minimum fixed by the Order in Council of 12 February 1876, and to an increase of the salary of a writing clerk, in the Dublin Quit Rent Office, in apparent excess of the limit imposed by Clause III. of the Order in Council of 19 August 1871.

My Lords observe that the Committee do not, in either case, recommend the reversal of the measures sanctioned by this Board, or that any steps should be taken for giving them additional authority.

It will be enough, therefore, for my Lords to repeat the admission that they regard these concessions as extraordinary acts, justifiable only as means for facilitating the introduction of the system prescribed by the recent Orders in Council, and they even go so far as to say that they would be sorry to see any steps taken that would relieve these acts of their abnormal character. At the same time, their Lordships fully agree with the Committee that the Comptroller and Auditor General does right in drawing the attention of Parliament to each case as it comes under his notice.

VOTE 8.—BOARD OF TRADE.

Use of Appropriation Act to overrule other Acts.

14. The two Examiners of Masters and Mates, referred to in the 4th paragraph of the Report of the Comptroller and Auditor General are stated to belong to the consultative staff of the Board of Trade; and their duties are said not to be solely confined to examinations. Your Committee, however, agree that the present arrangement, though convenient in an administrative point of view, appears to involve a departure from the letter of the existing law, under which salaries and other expenses connected with examinations are chargeable to the Mercantile Marine Fund.

With regard to the mode of charging the salaries of the Examiners of Masters and Mates, which the Committee consider to involve a departure from the letter of the existing law, I am to state that specific provision for these officers has been made in subsequent Estimates for the Board of Trade. But my Lords have a strong objection to employing the Appropriation Act to overrule the provisions of other Acts. No doubt, therefore, should be allowed to remain as to whether these salaries are compulsorily chargeable on the Mercantile Marine Fund, under Section 418 of the Merchant Shipping Act, 1854, apart from the operation of the Annual Appropriation Act, and I am accordingly to request that the Board of Trade will submit the question for the opinion of the law officers.

Extract from T.M. 21 March 1879 (P.A.C. 2, 1879, Appendix, p. 46.) —My Lords have now before them a letter dated 26 February, from the Board of Trade, from which they learn that the case has been submitted to the law officers, who advise that the Board of Trade are justified in charging the salaries of the Examiners of Masters and Mates to moneys voted by Parliament.

VOTE 25.—STATIONERY AND PRINTING.

Stock Statement.

22. A statement of the stock in store on 31 March 1877 has been prepared by the Exchequer and Audit Department from the books and figures provided by the Stationery Office. Your Committee regard this as a most valuable addition to the Report of the Comptroller and Auditor General.

My Lords concur with the Committee in their appreciation of the statement of stores in hand at the close of the year, which is appended to this Appropriation Account for the first time.

CLASS IV., VOTE 2.—SCIENCE AND ART DEPARTMENT.

Expenditure on Special Services.

40. The Committee of Public Accounts recommended in their Report last year that in the case of a service which (like the Loan Exhibition of Science Apparatus at South Kensington) had not been provided for by a special Vote, the expenditure should be shown under a separate subhead. In the Treasury Minute of 31 October 1877 it is shown that, owing to the present classification of the Estimate, there would be a great difficulty in adopting this precise recommendation. The object which the Committee had in view has been secured by the statement which the Treasury directed should be appended to the Appropriation Account, and which shows the expenditure upon the Exhibition in question during the year 1876–77. In addition to the sum of £13,677 10*s.* 7*d.*, so shown, it is stated that there was a previous payment of about £500 in 1875–76, on account of the Exhibition, and that there are still outstanding claims which will amount to about £1,000. The total cost of the Exhibition will thus probably exceed £15,000, an expenditure which was incurred without the knowledge of Parliament or Treasury sanction. Explanations were made to your Committee showing the gradual manner in which the proportions, and consequently the expenses, of this Exhibition had grown, but they trust that the Minute issued by the Committee of Council on Education, dated 18 December 1876, will prevent the recurrence of these grave irregularities. Your Committee are of opinion that whenever it is proposed to hold an Exhibition which will in any material degree increase the expenditure under the various subheads of the Vote, a note to that effect should be appended to the Estimates for the information of Parliament.

In accordance with the recommendation of the Committee, my Lords request that a note may be appended to future Estimates for the Science and Art Department, showing the extent to which any special Exhibition, proposed to be held, may affect the different subheads, whenever the additional expenditure involved is of any material amount. A statement of the actual expenditure entailed by such Exhibition should be appended to the Appropriation Account.

CLASS V., VOTE 3.—GRANTS IN AID OF EXPENDITURE IN CERTAIN COLONIES.

47. The Comptroller and Auditor General has, in his Report, furnished all the information at his command with reference to the Accounts of the Colonies which receive a grant in aid of their revenues, and which he was directed by the Treasury Minute of 29 July 1870 to examine. Some of these Accounts, however, do not contain sufficient information. Your Committee have learned with satisfaction that the suggestion of the Comptroller and Auditor General for the adoption, in the Colonial Accounts, of the form now adopted in the Imperial Appropriation Accounts, has been accepted by the Secretary of the Colonies, so far as relates to the Colonies of which the Accounts remain subject to Imperial audit.

To the Colonial Office.

No question arises directly upon this account requiring notice by my Lords. The Committee, however, refer to the very important subject of

the audit of the Accounts of Colonies receiving aid from Imperial funds, which is treated of for the first time by the Comptroller and Auditor General in connexion with the account of this Vote.

My Lords feel that the audit of these accounts has not yet been placed on a proper footing, and they are very glad that the Comptroller and Auditor General has drawn attention to it. The subject is closely connected with that of Treasury control over the revenue and expenditure of the Colonies whose accounts are in question. The degree of that control will necessarily affect the character of the audit by the Comptroller and Auditor General.

My Lords propose, therefore, to take the opportunity of making some remarks upon both subjects, and will begin by briefly recalling the correspondence thereon that took place nearly 10 years ago.

Treasury Control over Colonial Expenditure.

Prior to 1870 the Treasury exercised a direct financial control over all Crown Colonies.

Under this system the estimates and Financial Returns of some 18 Colonies used to be annually submitted to the Treasury, and no expenditure ought to have been incurred in excess of the Estimates without Treasury sanction. But of course all communications between the Treasury and the Colonies were carried on through the Colonial Office.

A limit to this control on the part of the Treasury was first suggested in 1868. . . .

My Lords need not quote from every letter that ensued; it will suffice to say that the arrangement ultimately agreed upon was the following:—

The Colonial Office was to continue to refer to the Treasury the annual estimates, and all increases of offices or salaries, in the case of Colonies receiving Grants in Aid, and to continue this practice for two years after any such Grant in Aid had ceased.

Further, the Colonial Office was to obtain and furnish to the Treasury, as soon as possible after the end of each year, returns of—

(1) *Revenue and Expenditure of the last preceding year;*
(2) *Revenue and Expenditure of the same year in comparison with previous years;*
(3) *Public Debt;*

in regard to every Colony that either owes money to the Home Government, or receives aid in the shape of a guarantee to a loan, or of salaries to Governors, or other specific grants. . . .

A copy of this letter will be sent to the Comptroller and Auditor General, and he will be requested not to pass the accounts of any Colony receiving Grants in Aid until he has satisfied himself that the estimates for the year of account were duly sanctioned by this Department, and that any expenditure not provided for in those estimates has received covering Treasury authority.

This will make it necessary that the estimate should be submitted to the Treasury for three years instead of only two after the cessation of a Grant in Aid, so that the term of Treasury control may coincide with that of audit of the accounts by the Comptroller and Auditor General.

Audit of Colonial Accounts.

The duty of auditing Colonial Accounts was formerly discharged by the Commissioners for West India Accounts, established by 46 Geo. 3, c. 80, and the Commissioners for Colonial Accounts established by 54 Geo. 3, c. 184. The functions of these two boards were transferred

to the Audit Office by 1 & 2 Geo. 4, c. 121, and 2 & 3 Will. 4, c. 26, respectively; but these Acts were repealed on 1 April 1867 by 29 & 30 Vict., c. 39, and it then became necessary for the Treasury to make some new arrangement, under Section 33 of the last-mentioned Statute, for the audit of Colonial accounts.

It was first proposed that the audit of the accounts of all Crown Colonies should be conducted at the Colonial Office. The question was at the same time mooted whether the cost of audit ought not to be defrayed by the Colonies themselves, but this idea did not meet with the approval of the Secretary of State. It was ultimately arranged that, as a general rule, the accounts of Colonies should be left to be audited by the Local Governments, but that the accounts of Crown Colonies receiving Grants from Imperial Funds in aid of their general expenditure should be audited by the Comptroller and Auditor General, without charge to the Colonies. Moreover, this audit would necessarily extend to the accounts of the Crown agents so far as they concerned Colonies receiving Grants in Aid.

Instructions to the above effect were given to the Comptroller and Auditor General by the Treasury letters of 13 January 1869 and 29 July 1870, but unfortunately no copy of the Minute was ever presented to Parliament, as required by the 33rd section of the Exchequer and Audit Departments Act, 1866; a defect, however, which my Lords will take care to have remedied next year.

In the meanwhile the audit of Colonial accounts was suspended at the Audit Office for some years. It was resumed, at least partially, so far as regards aided Colonies, towards the end of 1870. But my Lords are in doubt how far a detailed examination has been applied to the accounts of any single Colony for the complete series of years from 1867–68 to 1876–77. Indeed, the Report of the Comptroller and Auditor General upon the accounts for the latter year is enough to show the extreme imperfection of the materials which have, as yet, been placed at his disposal.

In the letter from this Department of 15 April last, my Lords expressed approval (subject to one slight alteration) of the new forms of accounts which the Comptroller and Auditor General proposes for adoption by the different Colonies, so as to bring them into conformity with those used for Imperial services. They hope that the introduction of these forms will save trouble on both sides, and lead to a more regular transmission of accounts.

Conclusion.

To sum up the foregoing remarks, my Lords propose that the direct control of this Department over Colonies and the Imperial audit of Colonial accounts should proceed so that each may support the other.

Any Crown Colony receiving an Imperial Grant in aid of its general expenditure must submit to the Treasury, through the Colonial Office, in good time before the beginning of each year, its annual estimates of revenue and expenditure in such detail as may in each instance be required, and accompanied by a comparative statement of the actual revenue and expenditure of the last preceding three years, for which accounts have been made up, and a statement of all debts due by or to the Colony at the end of each of such three years, and at the latest date for which the statement can be made at the time of despatching the estimate. These estimates must continue to be submitted to the Treasury so long as the Grant in Aid continues, and for three years afterwards. And for the same period the accounts of the Colony will be rendered to the Comptroller and Auditor General, monthly, in the prescribed form, with the necessary vouchers and authorities, for examination and audit. . . .

EXTRACT FROM TREASURY LETTER 11 APRIL 1879 TO THE COLONIAL OFFICE, APPENDED TO FIRST REPORT, 1879, p. 49.

1. *Estimates to be submitted to the Treasury, and Accounts to be rendered to Audit Office.*

Where a Colony, whose annual Estimates are subject to the control of the Home Government, receives an Imperial Grant in aid of its general expenditure, my Lords think that the Estimates of that Colony should be submitted to the Treasury, for the year in which the Grant is made, and for three years after the occurrence of the Grant, or after its cessation, supposing the Grant to have been annually recurrent. During the same period the Accounts of the Colony will be subject to Imperial Audit.

By a Grant in aid of General Expenditure, my Lords understand either a Grant to cover a net excess of estimated expenditure over estimated revenue, or made, in general terms, "in aid of the Local Revenue"; or a Grant which, although appropriated wholly or partially in the Estimates to specific services, such as the Redemption of Debt, Public Works, Arrears of Salaries, and the like, is none the less made upon a comparison of Revenue and Expenditure, as a means of discharging liabilities which properly belong altogether to the Colony, and is, therefore, in effect, a Grant to make good a deficiency of revenue. This interpretation agrees with the fact that the Colonial Office submitted the St. Helena Estimates notwithstanding a specific appropriation of the occasional Grants in aid of that Colony.

Further, my Lords are of opinion that the fact of a Grant in Aid being made for one year only ought not to exempt the Estimates of a Colony from submission to the Treasury. According to the Agreement of 1870, as shown by the extracts from Colonial Office and Treasury letters before quoted, the Estimates of Colonies "likely to become chargeable on Imperial Revenue," and which have "already been so," are to be sent to the Treasury. If a colony requires a Grant in Aid in one year, there is some likelihood of its requiring another before long, unless its Estimates are carefully supervised. The Secretary of State is familiar with the cases of St. Helena and some of the West African Colonies which have put in claims for Grants in Aid every two or three years. In such cases, therefore, my Lords think the Estimates should be sent to this Board until three years after the occurrence of the last Grant in Aid.

Where a Grant in Aid is made, free of interest, but with a more or less explicit condition of repayment whenever the circumstances of the Colony will permit, my Lords think this peculiarity is an additional reason for sending the Estimates to the Treasury, because, besides the duty of guarding against a recurrence of the Grant in Aid, there is the obligation of securing the claim of the Exchequer. . . .

There are, however, certain Grants to Colonies which my Lords do not hold to be Grants in Aid in such a sense as to make it necessary that the Estimates of the Colonies receiving them should be submitted to the Treasury, or that their accounts should be subjected to Imperial audit, viz., where Her Majesty's Government decides that a public work in a Colony is carried out partly for the benefit of that Colony and partly for Imperial objects, *e.g.*, for the use of the Army or Navy, and a portion of the cost is accordingly borne on Votes of Parliament; where, for political reasons, it is thought desirable to render the Governor of a Colony independent of local resources by voting his salary, and perhaps that of his Secretary; or to promote the federation of several Colonies by voting the cost of a steamer; or where, for reasons of a jointly political and commercial character it is considered advisable to assist a Colony in maintaining a Mail Packet Service which exceeds the actual requirements of the Imperial Post Office. . . .

2. *Annual Returns of Revenue, Expenditure, and Debts of Colonies to be furnished to the Treasury.*

These should be sent to the Treasury, in respect of—

(1) All Colonies whose estimates are submitted to the Treasury.

(2) All Colonies which are indebted to the Exchequer for Votes on condition of repayment free of interest, or for loans at interest.

(3) All Colonies which receive annually recurrent grants for salaries of Governors or other officers, or for the maintenance of a steamer, or as mail subsidies other than are requisite for Imperial Post Office purposes. . . .

(4) All Colonies which have raised loans under Imperial guarantee.

In the case of such of the above-described Colonies as possess responsible governments it is no doubt out of the power of the Secretary of State to insist on special Returns being made to the Treasury; but in cases of that kind, ample Returns are published by the Colonial Governments, and all that my Lords would ask is that copies of those Returns which give the requisite information may be furnished to them.

Their Lordships would observe that in the Returns actually received there is a great diversity of form, and that some of them are not in accord with the fundamental principles of financial classification: borrowed money is mixed up with proceeds of taxation in the Accounts of Income, and repayments of public debt with current cost of establishments in the Accounts of Expenditure, besides other solecisms too ludicrous to mention. It would be well to fix a general form for use by all Colonies for which such can be prescribed by the Home Government.

SECOND REPORT, 1878. H.C. 277.

Treasury Minute, 25 September 1878.

Navy Appropriation Account.

Estimates.

13. Section 2.—The Comptroller and Auditor General mentions in his Report certain cases in which he has had difficulty in ascertaining whether expenditure has been properly classified, as instances to illustrate the importance of framing the descriptive titles and explanations of the various subheads with the utmost possible precision. With the greatest care in framing the Estimates, it must be impossible, without unduly increasing their bulk, to include all the particulars which govern classification. In cases of uncertainty arising from this cause, the difficulty would, in the opinion of your Committee, be best met if the Comptroller and Auditor General were enabled to satisfy himself from the records of the Department that the particular service was in contemplation when the Estimate was framed, as suggested by the Accountant General in his evidence.

My Lords concur in the suggestion of the Committee that, in cases of doubt as to the mode of classifying expenditure under subheads, the Comptroller and Auditor General should be enabled to refer to the correspondence or other documentary evidence in the Admiralty, calculated to show the exact nature of the charge.

Examination of Balance Sheets.

20. Sections 16, 17.—The Committee of Public Accounts, in their Report last year, called attention to the importance of completing the system of Audit of Public Accounts by some examination of the balance

sheets of the several Departments, and by the testing of the balances. No steps have been taken by the Treasury in consequence of this suggestion; but the Comptroller and Auditor General has called attention to any items in the balance sheet of the Admiralty which appeared to him to require explanation on the part of the Department. The result has already been that a large number of claims which had been outstanding for many years have been adjusted, or are now in the course of adjustment.

With regard to outstanding balances, as shown in the balance sheets of the Departments, my Lords are glad to see the attention which the Comptroller and Auditor General has given to items appearing to him to require explanation.

Test Audit.

21. Section 18.—Your Committee have heard with much satisfaction, that by the direction of the Treasury the test audit, which has now been applied for two years to the accounts of Army expenditure, will be applied by the Comptroller and Auditor General to the Navy Appropriation Account for the year 1877–78; so that the system of audit under the provisions of the Exchequer and Audit Act will then be applied to every great department of the public service. . . .

SECOND REPORT, 1879. H.C. 186.

Treasury Minute, 27 October 1879.

CIVIL SERVICES.

CLASS IV., VOTE 1.—PUBLIC EDUCATION, ENGLAND AND WALES.

Over-payments.

12. Section 14.—The method of accounting suggested by the Comptroller and Auditor General with respect to over-payments is the strictly correct one, and is in accordance with the general rule throughout the Civil Services; but your Committee are unable to say whether it could be applied in the present instance without an undue amount of labour.

As regards the mode of dealing with over-payments to schools, my Lords understand the Committee to suggest, not that these should be recovered in any other manner than by deduction, as at present, but that they should be excluded from charge against the Vote until the following year, and in the meanwhile be treated as imprests. If this course can be adopted without unreasonable trouble, my Lords would recommend that it should be followed in future.

VOTE 16.—NATIONAL GALLERY OF IRELAND.

Note of Liabilities incurred.

20. The Comptroller and Auditor General calls attention in his Report upon this Account to the system which has been adopted by the Accounting Officer, with the sanction of the Treasury, of spreading the payments for purchases of pictures over more than one year's Vote, without the cognizance of Parliament, and points out the serious consequences which would ensue if the system were recognized as applicable to the expenditure of public money generally. Your Committee entirely concur in this view; but it was explained to them that the

special circumstances of the case render some relaxation of the general rule expedient in the present instance. They think, however, that in addition to the checks prescribed in the Treasury Letter of 8 July 1878 [*viz., Treasury sanction, if possible, previous to purchase*], the Accounting Officer should be required to append a note to the Appropriation Account, stating the particulars of any liability which has been incurred beyond the Grant.

Their Lordships request that, as recommended by the Committee, you will cause a note to be appended to each future Appropriation Account stating the particulars of any liabilities that may have been incurred beyond the Grant.

My Lords have not forgotten that, for some years, the Treasury declined to provide any Purchase Grant for the Irish National Gallery unless it were met by at least an equivalent in donations of money or pictures.

This condition is no longer insisted upon; but my Lords have to observe that, when the Vote of the year falls short of the amount needed for some particular purchase, it might be possible, by appealing to private liberality, to obviate the necessity of anticipating future Votes.

Charges connected with Buildings.

Classification.

33. During their examination of these Accounts the attention of your Committee has been repeatedly called by the observations of the Comptroller and Auditor General to the absence of uniformity in the mode of charging the expenditure incurred in connection with buildings. The greater portion of this expenditure is estimated for in England and Scotland by the Office of Works and Public Buildings, and in Ireland by the Office of Public Works, and is charged against Votes accounted for by those Departments; but in some cases a portion of the expenditure is provided for in and charged to the Vote for the service in connexion with which it is incurred. The Financial Officer of the Treasury handed in a Memorandum (printed in the Appendix), which explains the circumstances under which the Treasury has allowed the charges to be provided for in this manner. The subject is still under the consideration of the Treasury.

34. Your Committee agree with the view of the Treasury that, whilst due weight should be allowed to the argument for uniformity, it is of still greater importance that a service should be administered by the Department which can do so with the greatest economy and convenience, and that the Department which administers a service should also estimate and account for its cost.

This subject . . . does not demand much comment from my Lords. It has been for many years, and still is, the policy of this Department to gather Building Charges in Great Britain and Ireland, respectively, into the Estimates of the English and Irish Offices of Works. Where exceptions are made, or are allowed to continue, it is only for special reasons. . . .

In the 34th paragraph the Committee advert with approval to the principle, commonly adopted in the Public Service, that the Department which administers a service should also estimate and account for its cost. My Lords consider this to be the sound rule. . . .

Supplementary Grants.

36. Your Committee would also suggest that whenever Supplementary Votes have been obtained, either for the Civil Services or the

Army, the amount of such Supplementary Grants should be specified in the Appropriation Accounts under the proper heads, as has been the practice in the Navy Appropriation Account.

My Lords entirely concur in the suggestion. At present they believe there is only one Civil Department, the Royal Mint, which never fails to specify the amount of its Supplementary Grant on the face of its Appropriation Account.

Their Lordships desire that, in all future Appropriation Accounts, the amounts of the Original and Supplementary Grants may be distinguished under each subhead of the Vote in the following manner :—

Service.	Grant.	Expenditure.	Expenditure compared with Grant.	
			Less than Granted.	More than Granted.
	£	£	£	£
A.—Salaries	9,000	10,000	—	—
„ (*Supplementary*) ..	1,000			
B.—Travelling	500	550	50	—
„ (*Supplementary*) ..	100			
C.—Incidents	50	45	5	—
£				
Original 9,550	10,650	10,595	—	—
Supplementary 1,100				
Net Surplus to be surrendered .. .. £			55	—

Navy Appropriation Account.

Service provided for in more than one Vote.

48. Section 6.—Your Committee were informed that it is intended to appoint a Committee to consider the mode of estimating for the purchase of Torpedoes which was provided for in the year 1877–78, both in the Army and Navy Estimates. If it is found desirable that these purchases should continue to be made by the two Departments, an explanatory note should be appended to the Estimates, as has been done in the Estimates for the present year; and also to the Appropriation Accounts, giving the total charge.

My Lords would be glad to know what steps have been taken towards settling the future mode of providing for Torpedoes, and other warlike stores, which are not necessarily obtained through the intervention of the War Department. The introduction of explanatory notes into the Estimates in cases where the same service is provided for in both Army and Navy Estimates, was directed by the Treasury Letter of 19 February 1879.

Compensation for Injury

49. Section 8.—Your Committee consider that a payment of an unusual character, such as that which is the subject of this paragraph of the Report of the Comptroller and Auditor General, should receive the sanction of the Treasury before it is made.

Their Lordships agree with the Committee that such a payment as that of £23 5s. 6d. for compensation for the death of a native of Pemba, shot by a seaman of Her Majesty's ship "London," should not have been made without previous Treasury sanction.

Transfers of Machinery.

56. Section 16.—Your Committee were informed that it is the intention of the Admiralty to discontinue the practice which is called in question by the Comptroller and Auditor General in this paragraph of his Report.

My Lords agree with the Comptroller and Auditor General in disapproving of the practice of crediting a subhead for new works, at one dockyard, with the money value of machinery transferred to . . . some other dockyard.

Secret Service.

60. Section 28.—Your Committee concur with the Comptroller and Auditor General in his opinion, that payments for a "Secret Service" should be met from the portion of the Secret Service Vote assigned to the Admiralty, as it is manifestly undesirable that that officer should be called upon to certify to the correctness of an Account without the means of satisfying himself as to the correctness of all sums charged against it.

They also agree that payments for services of a confidential nature, of which the particulars ought not to be divulged, should be charged to the Vote for Secret Service.

Issues of Stores to Charitable Institutions.

62. Section 32.—The investigation of these claims has led to the reviewal by the Treasury of the modes of assisting charitable institutions by the Admiralty. Your Committee entirely concur in the opinion expressed in the Treasury Letter of 9 March 1878, that the practice of assisting such societies by issues of Naval Stores on credit is objectionable, and that any public assistance which may be given to them should be in the shape of avowed and absolute donations.

Their Lordships are glad to find that the Committee concur in the view taken in their letter of 9 April (not March) 1878, that religious or charitable societies should not be assisted by issues of public stores on credit.

Claims Abandoned.

63. Section 33, 34.—The Comptroller and Auditor General points out that losses arising from the abandonment of claims which do not give rise to subsequent charges against Naval Votes, but which fall wholly upon the Exchequer by diminishing the amount which would otherwise be paid in as Exchequer Extra Receipts, are not, so far as he is aware, in any manner brought to the notice of Parliament. The question is still the subject of corespondence between the Exchequer and Audit Department and the Admiralty, but your Committee were informed that there was no doubt that the object, in the desirability of which your Committee concur with the Comptroller and Auditor General, will be secured in the future Annual Appropriation Accounts.

My Lords request to be informed of the result of the correspondence between the Admiralty and the Audit Office as to the manner of recording, for the information of Parliament, the cases of abandonment of claims which have involved a diminution of Exchequer Extra Receipts,

but no charge upon Navy Votes. They do not see any difficulty in attaining the object in view by means of a note to the statement of Extra Receipts appended to the Appropriation Account, detailing the claims in question.

ARMY APPROPRIATION ACCOUNT.

VOTE A.—*Numbers.*

71. The Comptroller and Auditor General has not up to the present time, reported on Vote A. (the Number of Men). Your Committee are of opinion that it is desirable Parliament should be informed by him whether or not that Vote has been exceeded.

My Lords agree with the Committee that a Report by the Comptroller and Auditor General on Vote A., for the number of men, is desirable; and for this purpose that Vote should be included in the Appropriation Account, just as it is in the Estimates. Hitherto it has never been referred to at all in the Account.

Transfers between Votes.

78. Section 14.—The important question is raised in this paragraph of the Report of the Comptroller and Auditor General as to the proper interpretation of Section 4 of the Appropriation Acts, under which the Treasury has power to authorize expenditure unprovided for in Army and Navy Votes to be temporarily defrayed out of any surpluses which have been, or which may be, effected by the saving of expenditure upon other Votes. The Comptroller and Auditor General states that the spirit and intention of the section clearly contemplate a surplus caused by the saving and not by the postponement of expenditure; and a Memorandum by the Assistant Comptroller and Auditor (printed in the Appendix) more fully explains the view of the Exchequer and Audit Department. A Memorandum was also handed in by the Financial Officer of the Treasury, which gives a history of the section under consideration.

79. The whole subject was fully investigated by the Public Accounts Committee in 1862, and was dealt with at length in their second Report. On a full consideration of the many difficulties attending the question, that Committee recommended the practical continuance of the power to transfer from surpluses to meet deficiences. This recommendation was, however, greatly limited by the stipulation that such transfers should be considered as temporary advances, and should require the subsequent sanction of the vote of Parliament. The 4th Section of the Appropriation Act, as at present drawn, is in accordance with this recommendation. In the Report of the Committee in 1862 there is no distinction drawn between surpluses derived from savings properly so called and from postponements, and your Committee see no reason to believe that such a distinction was intended. It is evident that cases may arise in which in the interest of economy it is desirable that unforeseen expenditure which cannot be deferred should be met by the postponement of expenditure of a less urgent character. They consider, however, that there is much force in the observations of the Memorandum which sets forth the views of the Exchequer and Audit Department as to the liability to abuse of the power of transfer, when exercised in the application of surpluses obtained by the postponement of works to meet unforeseen expenditure.

80. To guard against this liability, your Committee consider it essential that whenever it is proposed to apply a surplus obtained by postponement of works in the manner mentioned above, the fact should be fully explained to the Treasury in the correspondence which is

subsequently to be laid before Parliament. It is also essential that the sanction of the Treasury to such transfer should be applied for, not as a matter of form when the accounts for the year are closed, but at the earliest moment after the necessity for incurring unforeseen expenditure is decided upon by the Department.

81. Your Committee would also suggest that a change should be made in the form of the Resolution which is proposed in Committee of the House to sanction the application of surpluses to meet deficiencies. That Resolution only sets forth the total of the deficits and the total of the surpluses for the entire Service. If each of the deficits and surpluses upon the several Votes were stated in the Resolution, of which due notice should be given to the House, the recommendation of the Committee of Public Accounts in 1862 (that the cases in which the power of transfer has been exercised should be brought before Parliament in a form which would require their attention and an expression of their opinion) would be more fully attained than at present. It is worthy also of consideration whether the correspondence between the great Departments and the Treasury upon the temporary application of surpluses to meet deficits should be printed with the Appropriation Accounts in such a collected form as should admit of easy reference.

To War Office.

In the remarks made by the Committee upon Section 4 of the Annual Appropriation Act, and their proposed change in the form of the Resolutions by which the sanction of Parliament is obtained to the exercise made by the Treasury of the power given them by that section, my Lords entirely concur; and they need not remind the Secretary of State that the Resolutions proposed in Committee of the House, on 6 August 1879, and reported on the following day, gave a detailed statement of surpluses and deficits on the several Votes, as suggested.

In considering the limits within which the Treasury can exercise the power of temporarily appropriating a surplus to meet a deficit, and the circumstances which justify a recourse to such power, it is necessary to bear in mind a distinction which my Lords cannot help thinking has been occasionally lost sight of in the discussions that have taken place on this subject, viz., the distinction between (1) applying a surplus on one Vote to meeting a deficit on another Vote, and (2) applying a saving on a subhead, or on an item of a subhead, in one Vote, to meeting a deficit on another subhead, or item of a subhead, in the same Vote or to paying for some new service not originally provided for, but of such a nature as to bring it within the scope of the same Vote.

It is the first only of these two different kinds of exercise of authority which is sanctioned by Section 4 of the Appropriation Act, because it alone requires statutory authority. The application of savings to meet deficiencies within one and the same Vote, and the allowing a Department to diverge from the detail of proposed expenditure, shown in the estimate of a Vote, by introducing a new but kindred service, are exertions of authority over matters which no statute touches, but which have been left within the discretion of the spending Departments and the Treasury, subject to the obligation of rendering an account to Parliament of all their expenditure.

Appropriation, strictly speaking, is defined by the schedule of the Appropriation Act. It exists, therefore, only between Vote and Vote. But most of the supposed infringements of appropriation occur, in fact, on the subheads of the same Votes, and notably on the subheads of the Vote for Works.

Ordinarily the Treasury is not asked to sanction, beforehand, an excess on one Army Vote, with the expressed intention of making it good out of savings on other Votes. And with respect to the Works Vote in particular, my Lords believe it would be difficult, in the last ten years at any rate, to find a single instance either of a saving on that Vote being deliberately effected by postponement, in order that it might be applied in aid of other Votes, or of a work being undertaken with the avowed intention of paying for it out of other than the Works Vote or a Vote of Credit.

In fact, the exercise of the power given by Section 4 is chiefly confined to a covering authority for excesses which are only discovered upon making up the accounts of such immense and scattered services as those of the Army and Navy at the end of each financial year, and which it is impossible wholly to prevent. By this procceding the Votes are united in one for the purpose of declaring a net surplus or deficiency, and Parliament is saved the trouble of voting money unnecessarily.

Speaking broadly, the savings dealt with in these general covering authorities, so far as regards Army services, have been effected on the Pay and Half-pay and Works Votes, not by postponement, but through the not filling up of cadres, by deaths, and by genuine over-estimate of the progress of works; and they are applied, with Treasury sanction, so far as they are required or as they will go, to meeting deficiencies on the Clothing, Provision, and Store Votes, which are those commonly under-estimated to any large extent.

As a rule the Works Vote is over-estimated; there was no case of a net deficiency upon it from 1870–71 to 1876–77, *both inclusive; and the deficiencies that occurred in the three years* 1867 to 1870, *and in* 1877–78, *were due to the extraordinary demands of the Abyssinian Expedition, the Russo-Turkish, and the African wars. There is very little temptation to create artificial savings upon it. But, owing to the practice of minutely subdividing the estimate, Treasury sanction has to be obtained for changes of the heads of expenditure within the Vote itself, under Departmental regulations of long standing, approved by various Select Committees, but not under Statute.*

My Lords are deeply sensible of the responsibility they incur in sanctioning any material departure from the details shown in the Estimate, on the strength of which a Vote has been obtained from Parliament, and they fully agree with the Committee that such sanction should be applied for at the earliest possible moment after the necessity for it is foreseen, and that the nature of the counterbalancing saving, as well as of the proposed new or additional expenditure, should be fully explained both to this Department and to Parliament.

But it is obvious that, if the Executive Government were to be deprived of the power of altering the details of proposed expenditure, and each subhead or item of a subhead were given the statutory rigidity that now belongs only to a Vote, the Estimates would have to be prepared in a very different manner from the present, in less detail, and with a far larger provision for unforeseen contingencies. My Lords cannot but believe that the existing practice of minute subdivision, coupled with a power of deviation vested, not in the spending Department, nor in the Treasury alone, but exercisable only by the conjoint action of both, and subject to prompt informatinon being given to Parliament, ensures a more efficient Parliamentary control over naval and military expenditure than could be obtained in any other manner.

I am to request that my Lords may be favoured with any observations the Secretary of State may have to make upon the suggestion of the Committee, at the end of paragraph 81, *that the Correspondence*

between the War Office and Admiralty, and the Treasury, respecting "the temporary application of surpluses to meet deficits," which is now printed with the Appropriation Accounts, at the close of the Accounts of the Votes to which Correspondence relates, should be collected together so as to admit of easier reference.

To Admiralty,

The views expressed in paragraphs [78 to 81] *are those entertained by this Board. The Committee hold that Parliament intends to empower the Treasury to make temporary use of savings on particular Army and Navy Votes for making good deficiencies on such other Votes, whether those savings result from over-estimate or from a postponement of expenditure; but they consider that there is an important distinction between these two classes of savings, and that the nature and cause of the saving, as well as of the new expenditure to which it is to be applied, should be clearly explained whenever the Treasury is asked to sanction its application in aid of another Vote. They also consider that such sanction should be obtained as speedily as possible after the necessity for it is foreseen; and they recommend that the Resolutions proposed in Committee should detail all the surpluses and deficits on Votes which are affected by them.*

In all these expressions of opinion my Lords entirely concur; and the Board of Admiralty are aware that the suggested change in the form of the Resolutions was adopted in the Session of 1879, *and met with the approval of the House.*

My Lords may also mention that the Resolution passed by the House on* 5 *March last, that each case of the exercise of Treasury powers under Section* 4 *of the Appropriation Act should be reported to Parliament within three weeks of date, or, if Parliament be not sitting, within three weeks of its next meeting, is in accordance with the spirit of the recommendation of the Committee.*

Pensions Capitalized.

89. Section 22.—The Comptroller and Auditor General calls attention to the arrangement with the Indian Government, whereby it was agreed that from 31 March 1874, the pensions of men formerly in the service of the East India Company, which had up to that time been paid directly by the Indian Government, should be capitalized for the sum of £244,238 17*s.* 7*d.*, and that henceforth the yearly charge should be borne by the War Office Votes. Your Committee entirely concur in the opinion which he expresses that an important arrangement of this character, whereby the Miscellaneous Revenue of one year is largely swollen at the cost of an annual charge upon future Votes, ought to have been brought to the knowledge of Parliament.

My Lords are of opinion that a footnote should have been appended to the Army Estimates for 1874–75, *and subsequent years, explaining the arrangement under which certain pensions of men who had served under the East India Company, and had been placed on the pension list prior to* 1 *April* 1870, *were transferred to Army Votes from* 1 *April* 1874, *in consideration of the payment to the Exchequer by the Indian Government of their capital value; and they request that such a note may be inserted in the Estimates for* 1880–81, *and that the aggregate amount of such of these pensions as are still outstanding may be stated.*

* Usually referred to as Mr. Monk's resolution of 4 March; quoted verbally in P.A.C. 8.1889.7, at p. 224.

Application of Vote of Credit.

91. Sections 25 and 26.—The net surplus, as shown in the Account, is £134,945 17*s.* 9*d.*; but that result is arrived at by taking in aid of the grants of the year the sum of £1,540,000 from the Vote of Credit (Additional Naval and Military Expenditure). It will be seen, however, on reference to the explanatory paper, No. 12, p. 163, of the Army Appropriation Account, that the extra expenditure occasioned by the Russo-Turkish War, only amounted to £1,311,390 13*s.* 11*d.* Your Committee are strongly of opinion that no larger sum should be taken from a Vote of Credit than can be shown to have been expended on the purposes for which that Vote was granted. If a Vote of Credit is considered applicable to meet deficiencies on ordinary Votes, the due control of Parliament over the expenditure would be at an end as soon as a Vote of Credit is granted. Your Committee are of opinion, therefore, that the Account should have shown a net deficit of £93,663 8*s.* 4*d.* upon the ordinary grants; and that of the amount advanced (£1,540,000.) out of the Vote of Credit, the unexpended balance to be surrendered should have been £228,609 6*s.* 1*d.* instead of £134,945 17*s.* 9*d.*

92. Your Committee consider that when advances are made out of Votes of Credit in aid of the grants for the ordinary services of the Army, the form of the Appropriation Account of the Navy should be adopted, and additional columns should be introduced into the Army Appropriation Account, in order to show the surpulses and deficits on ordinary grants, after deduction of the expenditure charged against the Vote of Credit.

93. It was explained to your Committee by the Accountant General of the Army, that in consequence of the Russo-Turkish War the Appropriation in aid of Vote 12 was diminished by £74,000 which would otherwise have been received for stores issued to India; and that this sum might have been charged against the Vote of Credit, thus diminishing the net deficit upon the ordinary grants to less than £20,000. The sum was, however, not included in the Account rendered by the War Office of the expenditure consequent upon the Russo-Turkish War, on page 163 of the Army Appropriation Account.

My Lords proceed to consider the remarks of the Committee on the manner in which the "Vote of Credit—War between Russia and Turkey" has been treated, more especially in its relation to the deficit on ordinary Army grants, 1877–78. *The subject is one of considerable importance, and not free from difficulty, and my Lords will be glad to be guided by the opinion of the Committee in dealing with it. Perhaps the best way of making the points at issue clear will be to explain the views which actuated this Board in taking the course that they did in the preparation of the Appropriation Account of the Vote of Credit, an intimation of which was given in the closing sentence of their letter of* 1 *January* 1879 (21,333/78).

This Vote of Credit was granted by Parliament in the following terms:—

> "*Towards defraying the expenses, beyond the ordinary grants of*
> "*Parliament which may incurred during the year ending on*
> "*the* 31*st March* 1878, *in increasing the efficiency of the*
> "*Naval and Military Services at the present crisis of the*
> "*war between Russia and Turkey.*"

It may be argued that any expenditure in excess of ordinary Army grants for the year in question, incurred for the purpose of increasing the efficiency of the Military Service, may be properly charged to such a

Vote. The Vote does not require the expenses charged to it to have been incurred "in respect of the Russo-Turkish War," a phrase which implies a direct connexion between the war and the expenditure, but it mentions a particular crisis of that war as the occasion of the desire of Parliament to increase the general efficiency of the Military Service.

Further, the expedient of a Vote of Credit is resorted to for the purpose not of restricting, but of widening the appropriation of the money granted. If the requirements of the Army and Navy had been known in January 1878 more accurately, instead of a Vote of Credit being taken, the ordinary Army and Navy grants would have been increased by Supplementary Votes; just as in preparing the Estimates for 1878–79 the ordinary Army and Navy Votes were increased by providing for the same class of expenditure as had in the previous year been met by a Vote of Credit.

But, if Supplementary Votes for Army and Navy had been taken for 1877–78, instead of a Vote of Credit, any excess upon those Supplementary Votes would have been applicable to meeting a deficiency on the original Votes for the same Services. To subject the issues from the Vote of Credit to a stricter appropriation can hardly be reconciled with taking a Vote of Credit at all.

Although, therefore, when the War Department made up their Account of Charges (vide pp. 162–63 of the Army Account) "incurred in respect of the Russo-Turkish War," they could not arrive at a sum which quite equalled the net deficiency shown on the General Army Account (page 5), my Lords considered that the difference of £93,663 8s. 4d. might fairly be attributed to that increase of expenditure which resulted from the crisis which had led Parliament to grant the Vote of Credit.

There was, moreover, the fact referred to by the Committee in paragraph 93, and explained on page 61 of the Account, that the appropriations in aid had been diminished by about £74,000 through an alteration in the destination of Clothing Stores, occasioned by the Russo-Turkish War.

My Lords, however, are especially anxious to adopt the most stringent rule of appropriation in dealing with moneys placed at their disposal by a Vote of Credit, and, as there is room for doubt, they prefer to submit their own judgment to that of the Committee of Public Accounts, and to accept their strongly expressed opinion against charging the deficiency of £93,663 8s. 4d. to the Vote of Credit as a decision which shall govern their future dealings with such Votes; and henceforth, however wide may be the terms of the Vote of Credit, the charge against it must not exceed the aggregate of the sums which the spending Departments can identify as directly occasioned by or for the event or object to meet which the Vote was taken.

They quite admit that this rule will strengthen the control of Parliament over the expenditure of Votes of Credit, and save controversy.

My Lords did not understand the Committee to recommend that retrospective action should be taken in this case.

For the purpose, therefore, of surrendering the unexpended balance of the issue of £1,540,000 that was made to Army Service out of the Vote of Credit, their Lordships have directed the write-off of the sum of £134,945 17s. 9d., which has been retained in the Exchequer out of the Army grants for 1878–79.

In paragraph 92 the Committee recommend the adoption by the War Office of the Navy form of Appropriation Account, whenever advances

have been made from a Vote of Credit. The form in question is that which has been used for the Army Account in many instances, and is in fact that of the Explanatory Paper on pages 162 and 163 of the Army Account for 1877–78. My Lords quite agree that it is the right form to use.

Expenditure Account of Vote of Credit.

T.M. 1 February 1880 (reprinted from Report of Select Committee on Admiralty Expenditure, H.C. 311/1855, Appendix, p. 194) . . . My Lords are not aware that any regulation has been laid down distinguishing the administration of a Vote of Credit from that of a Vote in supply by the Spending Department; but a Vote of Credit differs from (e.g.) *ordinary Army and Navy Votes, inasmuch as it is taken not by the Army and Navy Department but by the Treasury.*

The House of Commons, in fact, dispenses for the time with its power of control, and grants a sum of money in gross, and without the usual limitations, to the Treasury as being the Central Department of Finance, to which it leaves the responsibility of distributing the money in the manner best calculated to meet the emergency. In discharge of this grave responsibility, it appears to my Lords that they are called upon to require the Department about to be entrusted with the actual expenditure of any part of the Vote to submit to the Treasury, in the first instance, a general scheme of the expenditure which such Department proposes to incur. This general scheme is meant, whenever practicable, to precede the Vote of Credit, and to be presented to Parliament as a record of the grounds on which the Vote is asked; it stands, indeed, for the Estimate, more or less detailed, for an ordinary Vote in Supply. After the Vote of Credit has been granted it remains with the Treasury to deal with the issues from it; and my Lords are of opinion that such issues should be demanded by the Spending Department, in letters to the Treasury, explanatory of the proposed mode of spending them.

These letters together with the original scheme and with the Treasury replies, are meant to form a consecutive record of the total expenditure, and of the authority for it.

The sanction thus given by the Treasury should be held to cover all expenditure of ordinary character. My Lords, however, agree with the Comptroller and Auditor General that in every case where "the expenditure is exceptional, either in its character or its amount," the special authority of the Treasury ought to be obtained.

In thus stating their views my Lords are aware that the procedure which they have sketched is descriptive of their intention rather than of any uniform practice hitherto, but they have thought it desirable, since the question has been brought before them, to place their opinion on record. . . .

WAR OFFICE (CHARGES DEFRAYED ON ACCOUNT OF INDIA).

Remission of Claim.

102. Your Committee agree with the Comptroller and Auditor General that the sanction of Parliament should be asked for, to the remission of the claim due by the Indian Government to the Imperial Exchequer, which would probably be most conveniently given in the form of a Resolution.

My Lords agree that the amount of the remission, when ascertained, should be submitted for the sanction of Parliament, by means of a Resolution to be proposed in Committee of the House of Commons.

Note.—Parliamentary sanction was given by the India (Home Charges Arrears) Act, 1882, 45 & 46 Vict., c. 79.

ARMY (INDIAN HOME CHARGES).

Arrears of Extra Receipts

104. . . . Your Committee are of opinion that an account should be presented annually to Parliament, showing all arrears of payments due to the Exchequer as extra receipts.

T.M. 8 November 1880, on Reports 1880.—In paragraph 104 of their Second Report, the Committee of Public Accounts, 1879, suggested "That an account should be presented annually to Parliament showing "all arrears of payments due to the Exchequer as extra receipts." This suggestion was referred to in the evidence taken by the Committee of Session 2, 1880, and is enforced in No. 34 of the paragraphs of their Report, now enclosed.

In their Minute of 27 October, 1879, my Lords suggested that an account of the kind might perhaps be prepared of particular classes of extra receipts. The Secretary of State for War, in letter of 28 June last, affirms that, so far as he is aware, there are no arrears of payments due to the Exchequer for which his Department is responsible, of which an account could be prepared for Parliament.

My Lords agree with the Committee that it is expedient to keep Parliament annually informed of all important arrears, such as those of military contributions, and they intend to keep the recommendation of the Committee in view, and to act upon it as far as they find practicable.

PUBLIC WORKS LOAN ACCOUNTS.

Remission of Loans.

110. The Treasury has undertaken to consider whether some means cannot be proposed, whereby distinct Parliamentary authority should be given to all remissions of these loans.

T.M. 27 October 1879.—My Lords have under consideration the wish of the Committee, that distinct Parliamentary authority should be given to all remissions of Loans for Public Works. The object of the Committee might perhaps be obtained if a Standing Order was passed, directing that a separate resolution of the House in Committee should sanction each remission or composition separately, and that each should be afterwards embodied in a Public Statute.

REPORT, SESSION 2, 1880. H.C. 245.

Treasury Minute, 8 November 1880.

CIVIL SERVICES.

CLASS II., VOTE 1.—HOUSE OF LORDS OFFICES.

Extra Remuneration.

3. In this Estimate, as in several Estimates of other Departments the Comptroller and Auditor General has called the attention of your Committee to omissions in setting out allowances or sums which officers have received in addition to their salaries; and upon this point the Public Accounts Committee of 1879 questioned whether, in cases of repeated failures to comply with the instructions, the amount of such extra remuneration should not be disallowed from the Account of the Accounting Officer. Your Committee have not found any such cases of repeated

failure, but it appears that up to the present time the duty has not been imposed upon the individual officer of reporting to the head of his Department any extra remuneration which he may receive. In the opinion of your Committee full particulars should be annually furnished by each officer to the Accounting Officer, and it may be desirable to call the attention of all officers to their duty in this respect, by a circular to each Department. Your Committee attach great importance to all cases being brought under their notice by the Comptroller and Auditor General, who has the greatest facilities for collecting this information.

Let the following further Circular, upon the above subject, be sent to all Public Departments, including the War Office and Admiralty for their information and guidance:— . . .

My Lords completely agree with the Committee and request that means may be taken to inform every officer of your department that he will be held responsible for duly apprising the Accounting Officer of his Department, annually, of all his receipts out of public funds, or from fees, in the year, other than the payments made to him by the Department itself.

This instruction is intended to supplement, not to supersede, previous instructions; and Accounting Officers will continue to be under the same obligation as heretofore, to give information to each other, and to obtain information from any source open to them, for the purpose of making the record of extra remuneration as complete and accurate as possible.

CLASS III., VOTE 20.—COURTS OF LAW AND JUSTICE, SCOTLAND.

Salary shared with Predecessor.

12A. The attention of your Committee has been directed to a correspondence between the Home Office and the Treasury with reference to the appointment of Mr. Begg to the office of Sheriff Clerk, upon the condition that he should remit half the salary of the office to his predecessor. Your Committee desire to express their concurrence in the view taken by the Lords Commissioners of the Treasury as to this arrangement that, though not in strictness illegal, it is "opposed to the general "policy of the law, which presumes, with reference to an office of trust, "that the holder requires the payment of salary assigned to such office "for the purpose of upholding the dignity and performing properly the "duties of it," and they trust that the subject will, with reference to future appointments, receive the careful consideration of the Secretary of State.

The Secretary of State will perceive that the Committee fully support the view taken by the Treasury in this case. The only remark my Lords have to add to the Treasury letters of 21 October and 25 November 1878 and 14 March 1879, is that, so far as they are aware, there is no statutory obligation to appoint a Sheriff Clerk for life, and they suggest that in future such appointments should be made, like that of a Master of the Central Office, on good behaviour, if not during pleasure.

It may be worth while to correct an error into which the Comptroller and Auditor General has fallen, in Mr. Treherne's letter of December 1879 appended to his Report on the Appropriation Account of the Vote for Courts of Law and Justice, Scotland, 1878–79. In connection with Mr. Begg's appointment the Comptroller and Auditor General says that "with the exception of the judges and one or two other high civil "functionaries, who, on grounds of public policy, are appointed for life "by patent on the nomination of the Crown, all other public servants "receive and hold their appointments during pleasure." But as a fact

various legal and other functionaries, including the Comptroller and Auditor General himself, and his assistant, hold office neither for life nor during pleasure, but during good behaviour.

ARMY APPROPRIATION ACCOUNT.

VOTE A.—*Numbers.*

36. Section 9.—The Committee of Public Accounts expressed their opinion in their Report of 1879 that this Vote A. (Number of Men) should be examined into, and reported upon; and the result of the examination now undertaken for the first time, fully justifies that recommendation.

The War Office has, for the first time, furnished a statement (page 149 of the Appropriation Account) of the strength of the regimental establishments of the Army, and your Committee desire to point out an important question which has arisen upon this return.

37. The number voted by the House of Commons for the Regular Establishment, irrespective of Reserves, was 128,037 men, and in the original Estimates for 1878–79 the number of the Militia Reserve was put at 30,000 men, and of the Army Reserve, 1st Class, at 19,000 men. In April 1878 Her Majesty called out Class 1 of the Army Reserve Force, and the Militia Reserve on permanent service, and in a Supplementary Estimate of 28 July 1878, for £1,845,500 for Army Services under Head III., a sum of £190,000 was taken for Regimental Pay, &c., "of the establishments of the Army, including the Army Reserve, &c., "1st Class, not exceeding 19,000 men, and the Militia Reserve, not "exceeding 30,000 men, called out to join the Regular Forces." The Militia Reserves, when called out, are declared by the Act 30 & 31 Vict., c. 111,* to be deemed to be "upon Army Service, and to form part of Her Majesty's Army"; and the Army Reserve, when called out are declared by the Act 30 & 31 Vict. c. 110,* to "become subject to general service with Her Majesty's Army." Looking to the wording of these Acts, the War Department considered that by calling out the Reserves to form part of Her Majesty's Army, the regular establishment was practically increased by a number not exceeding 49,000 men, and accordingly they distributed that number amongst the several regiments, thus bringing up the number of the regular establishment to 177,037 men. As a matter of fact the Reserves called out fell considerably short of 49,000 mentioned in the Estimate, and to meet in part this deficiency the regular establishment was increased beyond the number (128,037) voted for that establishment. The result of the course adopted by the War Office amounts to this: that there was an excess over the number voted for the regular establishment, not only in the months of May, June and July, during which time the Reserves were out on active service, but also in the months of August to December inclusive, during which time the reduction of numbers was taking place gradually by means of the ordinary methods of Army administration.

38. Your Committee observe that there was no precedent to guide the War Office Authorities in this matter, and they recognize the emergency and difficulty of the case; but, upon careful consideration of the subject, they are disposed to question the correctness of the course taken. They consider that after it was ascertained how far the number

* These Acts have been repealed, but see later Acts; *e.g.*, the Army Act, 44 & 45 Vict. c. 58, s. 190 (8), as amended by the Army Annual Act, 1909, 9 Edw. 7. c. 8. s. 10, which defines "regular forces" as including soldiers of the reserve forces when called out on permanent service.

of Reserves actually available was less than the number estimated, Parliament should have been made aware of the fact, and power should have been formally taken to increase the regular establishment. They attach great importance to the necessity of keeping, as nearly as possible, to the number voted by Parliament for the regular establishment, though they are aware that there must unavoidably be at times a temporary excess; nor are they prepared to admit that it is correct, as has been suggested, to take the average numbers of the whole year, and to show, if such be the case, that there was no excess upon the whole year, because the numbers were below the authorized establishment in several months of the year.

The Secretary of State will observe that the Committee consider that the number of men voted by Parliament is the maximum that ought ever to be on the rolls at one time. My Lords understand them to consider that whenever an excess over that number can be foreseen or is known to exist, even though it may not more than meet a deficiency in the number of Reserves that Parliament may have permitted to be called out, Parliamentary sanction must be obtained for it at the earliest opportunity unless the excess is both unintentional and very small and can be remedied without delay; and they distinctly condemn the idea that the number voted by Parliament represents an average not a maximum number.

Although a fair case might be made out for regarding the total number voted as an annual average, and considerable convenience might arise from so doing, my Lords hold that the opinion of the Committee is, on the whole, the more strictly constitutional, and must be taken as expressing the intention of Parliament, so long as Parliament does not disavow it; and they hope the Secretary of State will be able to cause the wishes of the Committee to be carried out.

Estimates for Works.

45. Section 16, Vote 13.—This question of the Defence Works at Chatham was fully dealt with by the Public Accounts Committee in their Report of 1879; and your Committee will only observe that, except for some grave reason of policy, the practice should be strictly adhered to of presenting in the first instance to Parliament an estimate of the total amount that would be required for the whole work, and then taking the amount that may be required for each year.

My Lords are glad to know, from your letter of 15 May last, that there is no real difference of opinion between the War Office, the Treasury, and the Committee as to the duty of explaining to Parliament in the Estimates both the nature and the total cost of a work.

In their letter of 27 October 1879, my Lords suggested that "details "of the chief services included in Part I. of the Works Vote (13)" might be given in a separate schedule following that of the Royal Engineer Department. The Secretary of State objects to this proposal because it is not the practice of the War Office to prepare "details" of the various portions of large Part I. services, previous to including them in the annual Estimates, and because contractors would not willingly furnish prices for subdivisions of their contract for such services. But the object of my Lords would be attained if particulars of the works estimated for were given in such detail as would convey to Parliament a fair notion of the nature and extent of the undertaking without subdividing the cost to a greater extent than is done in the body of Part I. My Lords will be satisfied, however, if the desired information can be afforded by means of a clearer and fuller description of each work in Part I. itself, not in a separate schedule.

SUPPLEMENTARY ESTIMATES AND VOTES OF CREDIT.

47. Sections 24–26.—The provision made by the Original Estimates for Army Services, 1878–79, was increased by Supplementary Estimates of £350,000 for pay, allowances, &c., of Native Indian Troops while serving out in India, and of £1,845,000 for expenditure consequent upon the War between Russia and Turkey, and Native outbreak at the Cape, and by a Vote of Credit on account of the War in South Africa.

These Supplementary Estimates may be taken to have been the first of the kind, as a few years ago a Vote of Credit would have been taken in each of these cases; and your Committee have, therefore, inquired somewhat fully into the comparative advantages of Supplementary Estimates for Special Services and Votes of Credit, with a view to ascertain in what way the greatest amount of information and control with respect to the expenditure for such Services can be secured to the Treasury and Parliament.

48. Your Committee have arrived at the opinion that in all cases of special Service, where the Department can make a fairly definite estimate of the Service, and of the general heads under which the proposed expenditure will mainly fall, it is desirable that a Supplementary Estimate should be presented, as in the case of the Native Indian Troops, and that Votes of Credit should, as a rule, be only resorted to when from the nature of the services to be performed it is very difficult, if not impossible, to give any fairly approximate estimate of the amount required, and when consequently the attempt to do so would be practically useless, and even misleading.

49. It must be remembered that a Vote of Credit is not only not divided into different subjects, or subheads, but is not even specially applied to any one Department of the public service; and although the Treasury have, in accordance with the recommendations of the Public Accounts Committee of 1879, decided "that however wide may be the "terms of the Vote of Credit, the charge against it must not exceed the "aggregate of the sums which the spending departments can identify "as *directly* occasioned by or for the event or object to meet which the "Vote has been taken"; yet both the War Office and Admiralty authorities feel some practical difficulty in giving full effect to that decision. But when a Supplementary Estimate is taken in subheads, Parliament has, in the first instance, fuller information; and the Treasury have greater control over the Department, while the service is being carried out, as no variation could be made between those subheads without the sanction of the Treasury.

49A. At the same time it is important that the total estimated cost of any Extraordinary Service should be distinctly brought before Parliament at the time when such Service is undertaken; and your Committee are of opinion that the adoption of the system of Supplementary Estimates for the purpose of securing more effective control and audit, should not supersede the duty of presenting to Parliament in one complete view the best Estimate that can be formed of the total cost of any Extraordinary Service.

50. The changes which have been recently adopted are tentative, and are being watched by the Treasury in order to see how far they can be relied upon for giving to Parliament more trustworthy information than had been given under the old system of Votes of Credit.

51. The Comptroller and Auditor General further points out, that where a Supplementary Estimate has been taken for a special Service as distinguished from an ordinary Supplemental Estimate, showing under

several heads the proposed mode of expenditure, there should be some means in the Appropriation Account by which it could be ascertained whether the total expenditure for that Service exceeded, or not, the amount estimated. He desires a statement in such detail, and with such accuracy as is possible, of the way in which the money voted has been spent. On the other hand, the Departments urge that a Supplementary Estimate, even though taken in respect of the expense which it is supposed will be incurred for some special Service, is only intended to supplement the ordinary Votes under the proper items; that with respect to much of the expenditure, *e.g.*, supplies and forage, they cannot classify individual vouchers against the Supplementary Estimate; and that although the amount spent upon the additional Service appears in the Accounts under the different subheads, it is impossible, with any pretence of absolute accuracy, to separate it and bring together in the Appropriation Account the expenditure for the additional Service. But they agree that this could be done more or less accurately in a separate calculated Account or return.

52. Your Committee are disposed to think that either in the Appropriation Account, or in some separate return to be presented at the earliest possible opportunity, a statement might be made of the expenditure, which, without being too minute in detail, would be sufficient to show to Parliament what had been the actual expenditure in the year on the special Service for which a Supplementary Estimate has been taken. Such a statement would afford an authentic record for Parliament sufficiently accurate for practical purposes of the cost which had been incurred by any Extraordinary Service, and it would be useful as enabling Parliament to test the accuracy of the Estimates which had been made by the different Departments, and would tend to secure care in the preparation of similar Estimates on future occasions. Your Committee note with satisfaction that the Treasury are ready to consider this point in concert with the Departments.

53. Section 26.—The Comptroller and Auditor General, while distinctly disavowing any intention to reflect upon the action of the War Office, further points out that the Account showing the amount chargeable to the Vote of Credit by the War in South Africa, is accepted solely upon statements furnished by the War Office, and that he has no means of verifying the charges. Owing to the fact that these Accounts only come in for verification by degrees, and then have to be verified by the Department in detail, it is no doubt difficult in many cases to secure time for the Comptroller and Auditor General, who must report at a given date, adequately to check the Account, and judge of the substantial accuracy of the special appropriation of this expenditure. But the matter is an important one, and with a view to facilitate the work of the Comptroller and Auditor General, the Department should as far as possible, mark separate vouchers for expenditure as appertaining to the Vote of Credit; and should also submit to him, at the earliest practicable period, a statement of Accounts, and the basis of calculation, or principle, upon which the statement is made out.

My Lords have but little to say upon these paragraphs, because their opinion really coincides with that of the Committee on every point. Their conclusions may be summarized thus:—

1. *Whenever practicable a war or other special military or naval service, not provided for in ordinary estimates, should be provided for by means of Supplementary Estimates for the Army or Navy, as the case may be, and not by a Vote of Credit.*

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2. *An Account of the total cost of the special service as defrayed from either Ordinary or Supplementary Grants, should be appended to the Appropriation Accounts for Army and Navy services for the year.*

3. *To enable the Comptroller and Auditor General to check this account of total cost or the account of sums chargeable to a Vote of Credit, if such has been taken, the War Office and Admiralty should furnish him with separate vouchers for the expenditure so far as possible, and with an explanation of the basis upon which the calculation of the other charges, for which separate vouchers cannot be produced, has been made.*

Upon this latter point my Lords would refer to their letter of 16 *July* 1880, *in which they said:—" The spending Department must, in every " case, be able to produce reasonable ground for maintaining that any " individual charge or excess of charge defrayed in whole or part from " a Vote of Credit, has been incurred directly for the purposes to which " Parliament intended such Vote to be applied." This instruction applies equally to a case in which the special service has been provided for by means of Supplementary Grants instead of by a Vote of Credit.*

It is obvious that if a Supplementary Grant, made by Parliament to meet a special emergency, were applied by the War Office or Admiralty to defraying ordinary charges not connected with that emergency, the " more effective control and audit " sought for by the Committee would not be gained by substituting Supplementary Grants for a Vote of Credit.

APPROPRIATIONS IN AID.

54. Section 27.—The Comptroller and Auditor General has pointed out that the Appropriations in Aid shown on the General Account and in the Explanatory Paper (No. 2, p. 8), are confined to Appropriations which are carried to the totals of the Votes, but that there are other Appropriations which, being carried in conformity with the Estimates to the credit of certain subheads, have been omitted in the General Account. It does not appear to your Committee, nor indeed does it appear to the War Office, that there is any advantage in this mode of taking the Estimates and form of Account, but it is desirable that the point should be considered by the Treasury in concert with the Department. Your Committee may add that, when a change by a Department is made in the form of an Account, such as that pointed out by the Comptroller and Auditor General in Section 27, it would be proper to obtain the previous consent of the Treasury.

My Lords are of opinion that no substantive change should be made by the War Office in the form of either estimates or accounts without previous Treasury sanction, and that the omission from the account of Appropriations in Aid, to which the Comptroller and Auditor General alludes, ought not to have been made without such sanction.

One method should be pursued with regard to the estimate of all Appropriations in Aid. The gross amount of each subhead of a Vote should be stated in the estimate; and if any Appropriations in Aid are specially applicable to that subhead, they should be stated in a single sum, and the net amount of the subhead be shown as well as the gross. The total of the Appropriations in Aid, stated at the foot of the estimate, should distinguish between those Appropriations which have been abated from particular subheads and those which cannot be so appropriated, and have therefore to be abated from the total of the Vote, and both classes of Appropriations should be shown, in total, in the general account, and, in detail, in the explanatory statement.

NAVY APPROPRIATION ACCOUNT.

Debts of Seamen and Marines afloat.

58. Section 1.—The objections raised by the Comptroller and Auditor General as to the present system of charging the debts of Seamen and Marines [*Marines afloat only*] against the Wages Vote have received full consideration by the Admiralty and Treasury, and it has been found that the adoption of the course suggested by the Audit Department, though technically correct, would entail more labour and expense than the object to be attained would justify. The present system will, therefore, be continued.

Numerical Strength, Pay, &c. of Navy and Marines.

62. Section 15.—The numerical strength of the Navy has this year been tested for the first time, and subject to certain slight unexplained differences between the numbers shown upon the returns by captains of the ships and the numbers returned for pay, the result of the examination is reported as satisfactory.

63. Section 17.—The attention of your Committee has been drawn to the excess in numbers of seamen and boys over those voted by Parliament. To a certain extent this has been explained by the difficulty of regulating the number of training boys, who on attaining the age of 18 are entitled to be rated as seamen. A further explanation is given for the excess, owing to "the large number of ships in commission in consequence of the uncertainty of foreign affairs in 1878." This appears to your Committee to raise a question of difficulty, somewhat similar to that raised with reference to the Army, namely, whether when it is found necessary for special reasons to keep up a considerable excess over the numbers voted by Parliament, the subject should not be brought under the notice of Parliament, and sanction sought for such excess.

My Lords think that explanations should be called for of the differences between the numerical returns by captains of ships, and the pay lists.

They are of opinion that, whenever a material excess over the numbers voted is foreseen as inevitable, or is known to exist, and a reduction cannot be immediately effected, Parliamentary sanction for such excess should be obtained as soon as possible.

The number of men voted must be regarded as a maximum, and no deliberate excess upon it, even though balanced by a deficit in the same year, should be incurred without the previous consent of Parliament.

VOTE 1.—WAGES OF SEAMEN AND MARINES.

Numbers employed.

64. Section 19.—Your Committee think it would be desirable that the information referred to by the Comptroller and Auditor General with respect to variations under Subhead A. of Vote 1, should be given. The Accountant General informs us that there will be no difficulty in affording it.

My Lords request that, in accordance with the suggestion of the Committee, the explanation appended to Subhead A. in the Appropriation Account of this Vote, may contrast the numbers employed and paid with the numbers provided for in the estimate.

Rates of Pay.

66. Section 21.—It is also satisfactory to learn that new regulations have now been established by Order in Council with respect to the rates of Navy Pay. The practice which had before obtained of raising by Admiralty authority rates which had been fixed by Order in Council was irregular.

67. Section 26.—Numerous questions have arisen as to the authority for various rates of pay and allowances to the Royal Marines, and, *inter alia*, whether Army warrants can be applied to the Royal Marines without an Order in Council. Your Committee are informed that a revised code has now been submitted by a Departmental Committee; and that the authority of an Order in Council will be obtained; and further that it is not the intention of the Admiralty in future to extend an Army warrant without an Order in Council.

ESTABLISHMENT AND SALARIES OF CIVIL DEPARTMENTS.

Scope of Order in Council of 29 November 1879.

69. Section 31, Vote 3.—Your Committee report that an Order in Council was obtained in November last, sanctioning changes that have been made within the last few years in the establishments of the Civil Departments of the Admiralty, and in the salaries of officers therein, and authorizing the Admiralty to make changes for the future with Treasury concurrence. [*For copy of Order in Council* see *4th Report* 1889, *Appendix*, *p.* 135.] A further question which arose as to the exact extent of this Order has been decided by the Treasury, but not yet communicated to the Admiralty.

My Lords have already communicated to the Board of Admiralty the letter from this Department to the Comptroller and Auditor General of 28 June 1880, ruling that this Order in Council is not to be held to dispense with the necessity for specific Treasury sanction, so far as regards any establishment charges included in Navy Estimates for any later year than 1880–81.

DOCKYARDS AND VICTUALLING YARDS, &C., AT HOME AND ABROAD.

70. Section 35.—The Comptroller and Auditor General in his interesting report, has made several suggestions for improving the check upon the accounts, and your Committee are glad to learn that the Department are prepared to give every consideration to those suggestions. Your Committee would lay particular stress upon the necessity of obtaining Treasury sanction for the establishments and rates of victualling yards at Home and Abroad; and upon the desirability of presenting Expense Accounts at the same time as the Appropriation Account.

Their Lordships quite agree with the Committee that all rates of pay and numbers of establishments at home or abroad should be submitted for Treasury sanction.

They are glad to learn that the Dockyard Expense Accounts will, in future, be presented at the same time as the Navy Appropriation Account.

EXTENSION WORKS AT PORTSMOUTH AND CHATHAM, &C.

Expenditure in Excess of Statutory Limit.

72. Section 52.—These works of great magnitude were commenced under sanction of an Act, 28 & 29 Vict. c. 51. In that Act the works were described, and a total estimated expenditure was set out in one

schedule, and power was given to the Admiralty to make contracts for the works upon certain conditions as to the maximum of the contracts, and their duration. It appears from a memorandum by the Director of Works, annexed to this Report, that two contracts, were made under the Act, though not for any specified sum, but the estimated expenditure has been largely exceeded, and this excess has been incurred by the Admiralty under general powers to contract vested in them by their Patent, which powers they were advised were not limited by the Act. Particulars of the works have been presented in reports from time to time to Parliament, and votes taken for such excess; but your Committee doubt whether when works of this magnitude have been undertaken under a special Act of Parliament, and when it is subsequently found that the expenditure will be largely in excess of the amount estimated, it would not be a more proper and convenient course to apply again to Parliament for another Act, than to carry out such works under the ordinary powers of the Admiralty.

It is the opinion of this Board that, when an Act of Parliament, such as 28 & 29 Vict. c. 51, has been obtained, authorizing contracts for the execution of certain works within specified totals of expense, no further contracts in excess of the expense allowed by the statute, nor any further expense without contract, should, as a general rule, be entered into or incurred in respect of such works, without obtaining further special statutory authority for the same.

CONSOLIDATED FUND ACCOUNT.

Balances Outstanding on Advances by way of Loans.

80. By the Act 42 & 43 Vict. c. 35, large outstanding balances, with the interest thereon, have been extinguished. . . . No claim will in future be remitted, except under sanction of an Act of Parliament. .

SECOND REPORT, 1881. H.C. 217.

Treasury Minute, 24 November 1881.

CIVIL SERVICES.

CLASS II., VOTE 1.—HOUSE OF LORDS OFFICES.

Office of Profit under Crown.

5. The Comptroller and Auditor General has brought under the notice of your Committee a correspondence which has passed with reference to payments charged for salary to Lieutenant-Colonel the Honourable W. Carington, M.P., as Secretary to the Lord Great Chamberlain. The question practically raised is, whether the receipt of this salary affects the status of Colonel Carington as a Member of the House of Commons. It would be beyond the scope of the powers entrusted to your Committee to offer an opinion upon this point, but they thought it desirable, and indeed only fair to Colonel Carington, to ask him to appear before them. It will be seen from a memorandum which he handed in that he has been advised that his case does not fall within the Statute, 6 Anne, c. 41.

To the Clerk of the Parliaments.

I am directed by the Lords Commissioners of Her Majesty's Treasury to communicate to you the enclosed copy of paragraph 5 of the Second Report of the Public Accounts Committee, 1881, relating to the question whether it is competent for the Secretary to the Lord

Great Chamberlain to retain his seat in the House of Commons, a question which the Comptroller and Auditor General had raised in connection with the salary of £200 paid to the Secretary from the Vote for the Offices of the House of Lords.

My Lords may perhaps be permitted to refer to the observations of the Attorney General on this subject, in Committee of Supply, on 10 June last, when the Vote for the current year was being taken, in which he expressed a decided opinion that the post of Secretary to the Lord Great Chamberlain is not "an office of profit under the Crown" within the meaning of 6 Anne, c. 41.

VOTE 35.—CHIEF SECRETARY FOR IRELAND, OFFICES.

Crown Appointments.

8. A question has been raised by the Comptroller and Auditor General as to whether appointments by the Lord Lieutenant of Ireland are to be considered as appointments by the Crown, and whether, as such, they exempt the holders from the necessity of obtaining Civil Service certificates. The question is one of importance, and a close investigation into the nature and form of the different appointments will have to be made, but your Committee trust that it will receive the early consideration of the Treasury, when the necessary information has been received.

To assist my Lords in considering the question referred to in paragraph 8 of the Second Report, they requested, in their letter of 27 April last, that all the appointments enumerated in the enclosure to Lord Hartington's letter to the Treasury of 27 December 1873, might be classified accordingly as they are:—(a) made by the Lord Lieutenant by virtue of the powers conferred on him by his patent in respect of offices to which the Crown has power to appoint; or (b), made by him by virtue of the powers conferred upon him by statute, which statute does not give the power to appoint to the Crown.

EXTRACT from T.L. 6 February 1882, to Civil Service Commissioners (P.A.C. Report, 1882, App. 4).—With reference to Mr. Mann's letters of 2 October and 19 November 1879, inquiring whether certain situations to which appointments are made by the Lord Lieutenant of Ireland should be regarded as situations to which the holder is appointed directly by the Crown, I am directed by the Lords Commissioners of Her Majesty's Treasury to acquaint you that my Lords have been advised that when the Lord Lieutenant makes an appointment by virtue of powers conferred upon him by a statute, which statute does not give to the Crown the right to appoint, then the person so appointed by the Lord Lieutenant does not hold his office directly from the Crown; but that when the Lord Lieutenant appoints by virtue of his patent to an office the appointment to which belongs to the Crown, then the person so appointed by the Lord Lieutenant holds his office directly from the Crown.

CLASS IV., VOTE 1.—PUBLIC EDUCATION, ENGLAND AND WALES.

Over-payments.

24. The Comptroller and Auditor General has called attention to a case where the Department have declined to recover an amount which was admittedly an over-payment under certain Articles, on the ground that a heavier penalty had already been recovered from the managers of the same school under Article 32 (*b*). Your Committee agree with the Comptroller and Auditor General that a deduction under Article 32 (*b*), which is purely optional with the Department, can only be made from the amount chargeable against the Vote, and that the

principle that an over-payment under another Article of the Code can be condoned by a fine under this Article is inadmissible.

25. Your Committee would also observe, with reference to this case, and to the over-payments under Article 19 B, that claims for the repayment of sums over-paid out of public money ought not to be abandoned without the consent of the Treasury.

My Lords concur in the opinion of the Committee that over-payments, for the remission of which Treasury sanction has not been obtained, ought to be recovered, without reference to penalties exacted under other Articles of the Code.

CLASS V., VOTE 1.—DIPLOMATIC SERVICES.

Ransom.

31. The question of the repayment of the ransom money expended for Colonel Synge is still engaging the attention of the Foreign Office. Your Committee are disposed to agree with the Treasury, that more is involved in this case than the mere payment of money, and that, having regard to cases in the future of a like kind, it is not unreasonable to call upon Colonel Synge to refund by instalments some part, at least of the money; such amount to be repaid to him when the Turkish Government makes good its promise.

The Secretary of State will perceive that the Committee consider that Colonel Synge should refund part at least of the ransom of £10,787 2s. 9d. advanced by Her Majesty's Government. My Lords are, however, aware that it is proposed to deduct this amount from the surplus of Cyprus Revenue due to Turkey, and Lord Granville will probably think it right to defer making a claim upon Colonel Synge pending the result of this proposal.

The same remark applies to the case of Mr. Suter.

In connexion with this subject it may be remarked that out of the 12 cases of capture of British subjects by brigands, which took place between 1863 and 1876, ransom was paid in nine cases, and in all but one of those cases the ransoms were paid by the captives or their relatives exclusively. So far as my Lords are aware, there is no example, prior to 1880, of the charge of such a ransom to the Exchequer.

Their Lordships had much satisfaction in reading Lord Granville's Circular of 22 July 1881, announcing that Her Majesty's Government cannot in future undertake to make pecuniary advances for the ransom of private British subjects captured by brigands.

CLASS VI., VOTE 3.—RELIEF OF DISTRESSED BRITISH SEAMEN ABROAD.

Communication of Correspondence to Audit Office.

39. Though not directly connected with this Vote, your Committee think it may be useful to refer to a correspondence which arose upon the case of the "Daisy," and which will be found in the Appendix to this Report. It is admitted that no Department has a right to refuse information, even though of a highly confidential character, to the Comptroller and Auditor General, if he requires it to satisfy himself that expenditure agrees with Parliamentary Appropriation, but a question has been raised how far he has a right to publish such information in his Report to Parliament. Here, again, it is admitted that the Comptroller and Auditor General has no statutory right to publish, but he considers himself bound to afford to Parliament the fullest and best

information in his power with regard to expenditure, though, in practice, he would not publish papers, sent direct from any Department, without communicating with that Department. This rule does not apply, however, to papers of any Department sent by the Treasury to the Comptroller and Auditor General without any restriction, and in such case he holds that he has, without further communication, an absolute discretion to publish all, or any, of such papers.

40. Your Committee believe that the point has now been raised for the first time, but they do not apprehend that any practical difficulty will arise in the future. The Comptroller and Auditor General has stated that " for the future the ordinary practice will be considered an invari- " able rule of this Department, not to publish, *on its own motion*, papers " of other Departments, without duly communicating its intention to " the Departments concerned "; and when a Department sends papers through the Treasury it can guard itself against publication without further notice, by pointing out to the Treasury that the publication of them would, in the opinion of the head of the Department, be injurious to the public service, and that it is his desire to be consulted before any publication of them. This notice would be communicated by the Treasury to the Comptroller and Auditor General when transmitting the papers to him for his information. In this way the Department will be properly protected, while at the same time the rights of the Comptroller and Auditor General will be preserved consistently with the interests of the public service.

Paragraphs 39 *and* 40 *contain the remarks of the Committee* (a) *upon the obligation incumbent on every Accounting Department to furnish the Comptroller and Auditor General with any documentary or other information required to enable him to fulfil his duties under the Exchequer and Audit Departments Act, and* (b) *upon the expediency of consulting the Department furnishing the papers before any correspondence so furnished is published with the Reports of the Comptroller and Auditor General.*

The Comptroller and Auditor General is alone competent to say what information is necessary for the discharge of his statutory functions, and must exercise his discretion as to communicating to Parliament any information in his possession that is relevant to the accounts upon which he is reporting. Nevertheless my Lords agree with the Committee in thinking that the publication of any matter which it may be contrary to the public interest to divulge, may easily be avoided by mutual arrangement between the Exchequer and Audit Department, the Treasury, and the Accounting Department. In the event of disagreement between the Department and the Comptroller and Auditor General, the Department withholds papers, subject to the responsibility of satisfying the Public Accounts Committee with its reasons for doing so.

CLASS VII., VOTE 1.—TEMPORARY COMMISSIONS.

Creation of Excesses.

41. The Comptroller and Auditor General questions the decision of the Treasury with respect to charging a sum of £570 to Vote 10, Army Votes, 1879–80, on account of travelling expenses of War Office officials in South Africa. The total travelling expenses of the two War Office and one Treasury Official amounted to £742 7*s.* 1*d.*, and, in the first instance, these expenses were divided, as we are informed by the Assistant Financial Secretary to the Treasury, between the War Office Vote and the Treasury Vote. Subsequently it was agreed that an

honorarium should be paid to the three officers, and in these circumstances the Treasury, considering that the mission had now assumed the character of a Temporary Commission, decided to charge the honorarium to that Vote. Finding, however, that if they also transferred the whole of the £742 7*s.* 1*d.* to that Vote they would be creating an excess, which they hold to be illegal, they transferred the expense of one officer only to that Vote, and charged the expenses of the War Office Officials to the Army Vote, and directed an explanatory note to be placed in the Appropriation Account. The Comptroller and Auditor General contends that when once the Treasury had decided to treat this mission as a Temporary Commission, all the expenses connected with it should have been charged to that Vote, even though an excess were thereby created. He does not go so far as to contend that a decision once arrived at may not be altered, but he contends that it cannot be altered up to a certain point merely to suit the state of a Vote, and to avoid an excess. He admits, as indeed is clear from the evidence, that in this particular case the error, if error there be, in splitting the expenditure, was a very venial one, as the amount transferred to the Army Vote might originally have been charged to that Vote, and as, further, the explanatory note made the matter clear.

42. It appears to your Committee that the Treasury might very properly have charged these expenses to the Vote of Credit, or have left them as charges against the War Office and Treasury Departments respectively, and that having decided to treat the whole transaction as a Temporary Commission, it was not unnatural that for the purpose of avoiding an excess, which it would have been highly improper for them knowingly to create, one part of the charge should have been transferred to a Vote under which it might have originally appeared; but your Committee are disposed to support the view of the Comptroller and Auditor General to this extent, that when it was found that there would be an excess under the Vote "Temporary Commissions," the more correct course for the Treasury to have adopted would have been, not to reverse in part their decision and split the expenditure, but either to have reverted to their former view of the proceedings, or to have placed the whole expenditure to the charge of the Vote of Credit.

The remarks of the Committee on this subject in the 41st and 42nd paragraphs of their Second Report, under the head of Temporary Commissions, are worthy of attention.

In this case Messrs. White and Lawson, of the War Office, went out on War Office business to wind up the War Office Accounts of the Zulu War, and their expenses were met and properly met out of War Office Votes. Shortly afterwards Mr. Gurdon, of the Treasury, was associated with them, and the Treasury intended to charge his expenses as a Treasury Officer to the Treasury Vote, which would also have been a proper charge. These gentlemen returned towards the close of the financial year, and after the close of the year a proposal was made to remunerate them for their labour. After some consideration the Treasury thought it best to pay this remuneration out of the Vote for Temporary Commissions of the new year, in order to bring the charge in one sum before Parliament. My Lords would then have wished to transfer the travelling expenses of these gentlemen to the Temporary Commission Vote for the expired financial year, and up to this point the Audit Office and Treasury are agreed. My Lords, however, observed that they could not make such transfer without creating an excess upon the Vote for the expired year, and here occurs the difference between the Treasury and the Audit Office. The Treasury held that the expenses of Messrs. White and Lawson already formed a legal charge on War Office Votes and that they ought not to transfer them from those Votes

if by so doing they create an excess *upon another Vote. The Audit Office apparently held the contrary opinion, and in short, as my Lords view it, the Treasury gave preference to legality over uniformity, while the Audit Office gave preference to uniformity over legality. But my Lords had a further reason for the course which they adopted. The Departments generally have been slow to learn that an excess is a financial offence. My Lords are anxious to establish this as a canon of the public service, and they are and have been always anxious to avoid any act upon their own part which might be construed to imply that an excess upon a Vote may be created at pleasure.*

The Committee appear from their Report to have understood the object which my Lords had in view, and as there is no contest between the Treasury and the Audit Office upon this general principle, that, so far as practicable, one Vote should defray the entire expenditure upon a given service, my Lords may rest content with this explanation of the reasons for their action.

Revenue Departments.

Vote 2.—Inland Revenue.

Local Test Audit.

43. Your Committee desire to refer to a correspondence which has taken place between the Treasury and the Comptroller and Auditor General as to the expediency of continuing a local test of the Revenue Accounts of certain large towns. Upon a careful examination of that correspondence it does not appear that there is any appreciable difference between the two Departments upon the division which ought to exist between the functions of administration and those of audit; and the evidence of the Accounting Officer rather pointed, as it seemed to your Committee, to the fact that such a local examination would be valueless, so far, at all events, as the officers of Inland Revenue are concerned, than that it would lessen the proper responsibility of the Head Department. Your Committee are favourably inclined to the principle of local test under such restrictions as would secure the administrative responsibility of the Head Department; and they suggest that a Committee of officers of the three Departments should be appointed to consider the subject.

*My Lords are ready to adopt the suggestion of the Committee that three officers representing the Treasury, the Exchequer and Audit Department, and the Inland Revenue, should be appointed to consider and report upon the subject in concert.** . . .

Army Appropriation Account.

Exceptional Rates of Pay.

49. Section 4.—With respect to the Allowances to Regiments of Foot Guards, the Royal Warrant, referred to in the Report of the Committee of Public Accounts, 1880, has not been completed; but it is intended that it should include all Allowances, which, after revision, it is determined to continue. Your Committee are of opinion that it would be desirable to insert a clause in the Warrant, enabling the Secretary of State, temporarily, and with the concurrence of the Treasury, to grant special Allowances not authorized by the Warrant, or to vary those which are authorized, on the condition that he will at the earliest convenient opportunity obtain the authority of a Royal Warrant for such steps.

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* No Committee was appointed, but the question was settled by correspondence. A statement of the local test audit of Revenue each year appears in the Comptroller and Auditor General's Report on the Appropriation Account.

The Royal Warrant of June 1881 *does not contain any such discretionary clause as the Committee suggest, empowering the Secretary of State, with Treasury concurrence, to grant new or increased allowances temporarily, pending the issue of a fresh Warrant authorizing them. Their Lordships observe that the Royal Warrant of* 17 *August* 1881* *authorizes the Secretary of State, with Treasury concurrence, to grant,* in certain exceptional cases, *pay, non-effective pay, and allowances at rates other than those laid down in any warrants or regulations, provided that a list of such of the Grants thus approved as the Treasury may direct, and a statement of the grounds on which they have been made, shall be annually laid before Parliament. It appears to my Lords that the requirement of the Committee is thus practically met.*

Mode of charging Pay of Officers on Committees of Inquiry.

54. Section 9, Vote 1.—The Comptroller and Auditor General has raised a question under Subhead A., whether the amounts paid to three officers for their services upon a War Office Committee should not have been charged to Vote 16. In two of the three cases the amount paid was mainly to compensate the officers for the loss of salary which they would have received as Governors of Gibraltar and Cyprus, had they not been called away from their posts. These salaries, when originally fixed, may have been calculated so as to cover staff pay, but they can hardly on that account be treated as staff pay. So far, therefore, your Committee agree with the view of the Comptroller and Auditor General. The case of the third officer stands on a somewhat different footing.

For the solution of this question my Lords are inclined to lay down a rule corresponding to that which determines the charge made by one Government Department against another for the loan of the services of an officer.

So long as a military officer, serving on a Committee, only draws the full pay and allowances of his rank, which are presumably provided for in Vote 1, *such pay and allowances should be charged to that Vote; but if any other remuneration be given to the officer, specially for his service on the Committee, or if it be necessary to compensate him for a loss of income occasioned by such service, such payments ought to be charged to that Army Vote which is properly chargeable with the expenses of the Committee. It is the rule of the Civil Service that any extra remuneration paid to a salaried officer should be stated in a note appended to the Estimate or Appropriation Accounts of the Vote in which provision is made for the salary of such officer, and the same rule should, as far as practicable, be applied to Military Service.*

Applying this arrangement to the three officers employed on the Committee of Inquiry into the localization system, my Lords think that the difference, if any, between the pay which they were normally entitled to draw, in virtue of their rank on the active list of the Army, from Vote 1, *and the pay which they actually received whilst serving on the Committee, ought not to have been charged to Vote* 1, *unless that Vote provided for the expenses of the Committee. The only Committees provided for specifically in the Army Estimates for* 1879-80, *viz., the Royal Engineer and Sanitary Committees, were provided for in Votes* 1 *and* 15, *respectively. But my Lords presume that a Departmental Committee, such as is now in question, would be provided for in Vote* 16, *were any special provision for it requisite. If so, Vote* 16 *ought to*

* Since superseded by Royal Warrant of 27 October 1884; see P.A.C. 4. 1889. Appendix, p. 186.

have borne the excess of the actual pay of the three officers, over what is above described as their normal pay.

Regimental Pay Lists.

55. Sections 10 and 11, Vote I.—A question of some difficulty has been raised by the Comptroller and Auditor General whether the method of account pursued in the Regimental Pay Lists can be reconciled with the provisions of the Exchequer and Audit Departments Act, 1866. It appears that the officers commanding troops, batteries, and companies, carry out, as sub-accountants of the paymaster, the duties of payment to the men; that in the company accounts credit is taken by the captain for the pay due to his men for the month, but his actual drafts of cash on the paymaster are limited to the amounts actually required for the time being; that each soldier is credited in his pocket ledger with the pay due to him, although he may not at the time require to draw it, and that, for purposes of public account, the credit to the soldier's personal account is held to justify the final charge against the Vote for pay. One of the results of this system is that in time of war, where the paymasters may be, as in the case referred to in South Africa, detached from their regiments, or where the soldiers do not require their pay monthly, large sums of money may, at the end of the financial year, remain unissued in the Commissariat Chest, but are charged to this Vote as if they had "come in course of payment" within the financial year, and within the terms of the Exchequer and Audit Act. The War Department, admitting apparently, that the case may not fall within the Act, if strictly construed, contend that when once sums have been carried to the credit of the men in the company accounts—that is, in the acquittance-roll of the company, and pocket ledgers of the men—such sums must be taken as if they had come "in course of payment." The Treasury have not had the matter before them, but are disposed to think this contention may be fairly argued, though it rather stretches the definition of the Act. Your Committee have no desire to find fault with the system, which works very well, and which could not be altered, as they are informed, by throwing part of the charge from one year to another, without grave inconvenience; but they question whether it can be reconciled with the provisions of Section 24 of the Exchequer and Audit Act. They would suggest, either that the system should be in some way modified so as to bring it clearly within the Act, or, if that be not practicable, that the opinion of the Law Officers should be taken upon the point, and if that opinion be unfavourable, that the system should be duly legalized. The difficulty cannot be removed by treating the sums placed in the Chest to the credit of the paymaster as an imprest or an advance, because there would not, in the case supposed, have been an application of such imprest within the year of which an account has been rendered and allowed by the Accounting Department within the terms of the Exchequer and Audit Act.

Section 24 of the Exchequer and Audit Departments Act restricts the sums that may be included on the discharge side of an Appropriation Account to those which may "actually come in course of payment" within the year to which the account relates.

The sums credited to private soldiers in the Monthly Pay Lists of companies and the private ledgers of the soldiers, have hitherto been treated as actual payments, although the soldiers may not have actually received them, nor the Commanding Officer have drawn them from the Paymaster, nor the Paymaster have drawn them from the Chest. It appears to my Lords that, under certain circumstances, a credit is

equivalent to an actual payment. It is the usual rule throughout the public service that the date of the authority to pay governs the year of charge, although actual payment may not be made until months after the end of the year. Again, the crediting of a sum to the banking account of a payee, when duly evidenced by the receipt of his attorney, is regarded as an actual payment.

*My Lords take it to be a fact that a sum inserted in the Monthly Pay List and in the private ledger of a soldier entitled to draw it is placed as completely at the command of that soldier as if it were placed to the credit of his private banking account. They, therefore, hold that such insertion may be regarded, for the purposes of account, as equivalent to actual payment. The Committee suggest that the opinion of the Law Officers should be obtained on the point, and my Lords are quite willing to take this course, if their argument be not accepted as conclusive by the Comptroller and Auditor General.** . . .

Extra Pay and Allowances.

57. Section 15, Vote 1.—The Comptroller and Auditor General has pointed out that no regulation exists limiting the amount of pay that an officer may receive in addition to his ordinary pay; in other words, that the Secretary of State claims a discretion of putting upon the same man any number of extra employments, and practically, therefore, allowing him the extra rates of pay sanctioned for such employments. But so long as the rates of pay are such as have been duly sanctioned either by warrant or by the Treasury, your Committee think that such discretion of appointing must be vested in the Secretary of State, limited, as such discretion necessarily would be, by the interests of the public service. It is a question rather of policy than of accounts.

Their Lordships think the Committee are right in deeming it within the sole discretion of the Secretary of State to decide whether the performance of one extra duty, at the authorized rate of extra pay, disqualifies an officer for the discharge of one or more other extra duties similarly remunerated. The authority of a Royal Warrant, or special Treasury sanction, is required for the rate of pay, not for the nomination of the officer who is to earn it.

Special Subhead for Compensation.

60. Section 16, Vote 10.—Your Committee are of opinion that a special subhead should have been made to explain that the 441*l.* was a loss, and not a sum for which provisions had been received.

Their Lordships request that, in accordance with the recommendations of the Committee, a payment by way of forfeit or compensation for loss to a contractor may in future be charged to a separate subhead instead of being treated as a payment for supplies.†

Mode of providing for Personal Remuneration.

61. Section 18, Vote 12.—The Comptroller and Auditor General points out that salaries have been charged under Subhead B., Contingencies of Manufacturing Departments. The rule laid down by the Treasury that all personal remuneration should appear under the head Salaries only applies to the Civil Service, but your Committee think that it would be desirable that the subject should be considered by the Treasury in conference with the heads of the War Office and Admiralty.

* See also P.A.C. 2. 1883. 58, at p. 150, and 2. 1890. 5, at pp. 247-8.
† See also P.A.C. 2. 1886. 79, at p. 191.

The rule applied to Civil Services is as follows:—

"All charges for the personal remuneration of the permanent or temporary staff of a Department, including the pay of professional men engaged for special services, should be provided for in the subhead for 'Salaries, &c.,' unless they form a distinct subhead, or, as in the case of Estimates for Public Works, some other arrangement has been specially sanctioned by the Treasury."

It is therefore much more elastic in its terms than the Committee appear to think; and my Lords are disposed to apply it to Army and Navy Services. The important principle to bear in mind is that personal remuneration should, whenever practicable, be provided for in a different subhead from other expenses, and that, if this be impracticable, either the sum taken for personal remuneration should be shown as a distinct item of the subhead, or, at least, the fact that the subhead is intended to cover personal remuneration should be stated in the description of it.

Purchase of Stores.

62. Section 19., Vote 12.—A question of some importance has been raised under this Vote. It appears that the War Office, in February 1880, called the attention of the Treasury to the fact that owing to delay in fulfilling contracts, stores to the extent of £60,000, which ought to have been delivered before 31 March 1880, could not be delivered within the year. There was an estimate of £60,000 of stores to be delivered in 1880–81, and the Treasury were asked to sanction the payment of £60,000 of the stores which were intended for the year 1880–81, and which were ready for delivery, in lieu of the stores which could not be delivered before the end of the financial year. Sanction was given on the ground that it was a mere transposition of stores; and the stores were supplied. There does not appear to have been any pressing necessity for the stores that were delivered, and the War Office only urged that if these goods were not obtained in the current year "it will "be necessary to carry forward a sum approximately estimated at "£60,000," and that "will occasion an excess upon next year's Vote to "that extent, unless sanction is given for purchasing before 31 March "next, materials, the order for which would, in the ordinary course, "have been delayed until after 1 April." Your Committee cannot altogether approve of this proceeding, because they think that there might be some danger of arrangements of this kind being made at the end of a financial year merely to save the estimates of a succeeding year, although no doubt any such arrangement would be jealously scrutinized by the Treasury.

The Committee feel some hesitation in admitting a discretion on the part of the Secretary of State, in concert with the Treasury, to apply a saving on the Stores Vote to the purchase of stores required for the Service of the succeeding, but not of the current year, and which in ordinary course would be purchased out of the Vote for the succeeding year. Doubtless such a discretion, like every other, is open to abuse, but my Lords doubt whether its withdrawal would be for the public interest. Exceptional opportunities may offer of procuring stores for the coming year on peculiarly favourable terms, which would be lost by the delay of a few months. The safeguard against abuse is the publication, for the information of Parliament, of all Treasury authorities for these exceptional purchases, and the exercise of a check over stocks in hand. On this latter point my Lords would refer to the statement in their Minute of 27 June 1881 (para. 32), that they have in view the

*adoption of measures for informing Parliament of any material variation in the balances of Stores in the Army and Navy Departments.**

Special Accounts of Special Expenditure.

64. Section 25.—Extra expenditure occasioned by war in South Africa. Your Committee gather from the correspondence and evidence that the War Department and the Comptroller and Auditor General practically concur in the regulations which are set forth in the Treasury letter of 8 November 1880, and which have been framed with a view to afford to the Comptroller and Auditor General the best means of testing the expenditure chargeable against a Vote of Credit. Your Committee trust that on any future occasion no effort will be spared by the War Department to prepare, at the earliest possible period, an account of the special expenditure under the Vote of Credit, in order to enable the Comptroller and Auditor General to deal with the case, and to compare such expenditure with the accounts and vouchers from which it has been abstracted.

My Lords fully share in the view expressed by the Committee of the importance of the early preparation and transmission to the Audit Office of special accounts, showing the manner in which the charge against a Vote of Credit for special expenditure has been arrived at. Such special accounts are still more requisite where the special expenditure is provided for, as the Committee of Session 2, 1880, wish that it usually should be in future, by Supplementary Grants, and not by a Vote of Credit.

NAVY APPROPRIATION ACCOUNT.

Pay and Allowances, &c.—Orders in Council.

75. Sections 6, 7, and 8.—It is very desirable that all rates of pay and allowances should, as soon as possible, be embodied in an Order in Council, but some delay must be occasioned by the very necessary inquiry into the expediency of continuing some of the payments which date from a very early period. In any future Order in Council it is proposed to insert a clause such as has been suggested in paragraph 49 of this Report, to enable the Admiralty, with Treasury concurrence, to make special temporary allowances. The above remarks apply to the pay and allowances of the Royal Marines (Section 8) and Coastguard (Section 14).

My Lords have approved of a Draft Order in Council submitted in Mr. Swainson's letter of 5 October last, authorizing the Board of Admiralty, with Treasury concurrence, to grant, in certain exceptional cases, pay, non-effective pay and allowances, at rates and under circumstances other than those laid down in any Regulations approved by Order in Council: Provided that a list of the Grants thus approved, as the Treasury may direct, and a statement of the grounds on which they have been made, shall be annually laid before Parliament.†

Stores.

77. Section 11, Vote 2.—With regard to the savings under this Vote and Vote 10, sec. 1 [*Naval Stores, now provided for under Vote* 8,

* The Treasury Minute of 27 June 1881 is printed at pp. 15 to 21 of the Third Report of P.A.C. 1881, H.C. 350. *See also* P.A.C. 8. 1881. 13 and T.M. 22, at p. 124 of this volume.

† Order in Council 19 December 1881, *see* P.A.C. 4. 1889, Appendix, p. 135. See also P.A.C. 2 1902.11, T.M. at p. 442.

sec. II.], their real value, as pointed out by the Comptroller and Auditor General, cannot properly be determined without reference to the condition of the Stock Account at the commencement and end of the financial year. A surplus may be shown in the Appropriation Account as between expenditure and grant, which, so far as the cash accounts are concerned, is absolutely correct, but which may, in fact, have been obtained by an exhaustion of stores or stock in hand. The Expense Accounts serve, no doubt, to check the Appropriation Account; but, apparently, they cannot be completed in time to lay them before the Comptroller and Auditor General for purposes of comparison by him, although, owing to great and creditable exertions on the part of the Department, they have this year, for the first time, been presented to the House of Commons at the same time as the Appropriation Accounts. The Admiralty, however, are prepared to state in the Appropriation Account the value of the stock and stores at the beginning and end of each year, though not the quantity, and this would go a long way towards meeting the point raised by the Comptroller and Auditor General.

My Lords are glad to learn that a statement of the value of Stores in hand at the beginning and end of the year will be appended to the Appropriation Account of Vote 2 for Victuals and Clothing. In this connexion they may refer to paragraph 32 of their Minute of 27 June 1881, *respecting extra receipts.* [P.A.C. 3. 1881, Appendix, p. 20. See also T.M. 1 February 1882, paragraph 22, printed at p. 124 of this volume].

Numbers in Dockyards.

80. Section 18, Vote 6.—The result of a comparison of the monthly Numerical Returns furnished from the dockyards with the Estimates shows that at each of the yards the numbers borne have exceeded the numbers given in the Estimates. Your Committee are satisfied with the explanation given by the Comptroller of the Navy upon this point, to the effect that the number of men given in the Estimates is but a rough approximation to the number which may have to be employed; that the amount of wages allowed by Parliament for each year is the limit by which the Admiralty are absolutely bound, and is really the accurate measure of the work to be done; and that while the Superintendents of the Yards are strictly responsible for keeping to that amount, they must be to some extent free, within that limit, to vary the kind of labour employed from time to time, as, for example, to employ at one time a larger number of men at a lower cost, or *vice versa*. This system is found to meet the exigencies of the service and to secure economy. Your Committee, however, think it would be desirable, in case of any material variation, that the cause of such variation should be stated in general terms. . . .

No direct Parliamentary sanction is given or required for the numbers of labourers stated in the Estimate and Appendices of the Dockyard Vote. Nor is Treasury sanction required for the employment of any particular number, so long as the sum provided for their wages is not exceeded. Variations between the estimated and actual numbers cannot be avoided; but if an explanation of any serious variation be appended to the Appropriation Account, as suggested by the Committee, it will tend to greater accuracy of estimate.

Payments to Contractors for Steam Machinery.

83. Section 23, Vote 10.—The attention of your Committee has been directed to two points connected with the payments to contractors for steam machinery. The first has reference to the very large proportion

of expenditure which is made in the month of March in each financial year. Thus, for example, while the payments between 1 April 1879 and 31 January 1880 only amounted to £168,476 15*s.* 7*d.*, the payments in March 1880 were £174,625 10*s.*, of which sum no less than £149,090 10s. was paid between 22 March and 31 March. For the reasons stated by the Admiralty, your Committee do not anticipate that it will be possible altogether to avoid considerable payments being made towards the close of the financial year, but they are glad to learn that improved forms of contract are under consideration, by which the payments will be more evenly distributed over the year; and that the Admiralty fully recognize the desirability of not postponing payment of heavy liabilities until the last month of the financial year.

84. The second point has reference to the payments of advances to contractors at times when they could not have been demanded under the terms of the contracts. And here again a very large proportion of advances was made in the month of March. Thus the advances between 1 April 1879 and 31 January 1880 amounted to £84,850, whilst those in March 1880 amounted to £119,640, of which £87,750 was paid on the last three days of the financial year. These advances are made under a special clause, which, owing to the unsuitableness of the old forms of contract to the present requirements, it was found necessary to insert in contracts, but your Committee trust that these advances which they are ready to assume, as stated by the Accountant General, are closely watched, and only made for actual work done, will be regularly defined and provided for in the new forms of contract in course of settlement, so that, except in very special cases, payments should not be made until the conditions entitling the contractors to receive such payments have been fulfilled, especially as there is naturally a tendency at the close of a financial year to make advances or payments on account rather than have to surrender a balance and increase the estimate of the succeeding year. Your Committee must also express their opinion that in no case should payments or advances be made before the contract is signed.

My Lords agree with the Committee in thinking it desirable to spread the payments to Contractors more evenly throughout the year. They would be glad to learn whether the new forms of contract, defining the conditions under which Contractors are entitled to advances, after the Contract has been signed, are now settled.

THIRD REPORT, 1881. H.C. 350.

Treasury Minute, 1 February 1882.

Extra Receipts.

1. Your Committee propose, in this their Third Report, to deal with a scheme which has been submitted to them by the Treasury for improving the mode of dealing with Extra Receipts.

2. This important subject has been for many years under the consideration of the Treasury and the Departments interested; it has been, on many occasions, referred to by different Committees on Public Accounts, and by the Comptroller and Auditor General, who have repeatedly expressed a wish that some scheme of reform should be introduced by the Treasury in a system which is admittedly inconsistent, imperfect, and full of anomalies. It is satisfactory, therefore, to find that a distinct attempt has now been made to obtain a more uniform

and consistent system of dealing with those Receipts, while securing to Parliament a full cognizance and control over the gross expenditure of each Department.

3. Appended to this report will be found: (1) The Treasury Minute containing the scheme proposed by their Lordships, and a very able and valuable report and scheme by Mr. Mills upon the subject; (2) The evidence taken before a Committee which was appointed by the late Board of Treasury to consider and report upon Mr. Mills's scheme; and (3) A report by the Comptroller and Auditor General upon the Treasury scheme. The whole case is so clearly and concisely stated in these papers that your Committee consider it unnecessary to restate it here.

4. It will be seen that the measure devised by the Treasury is intended "to remove the most striking anomalies of the present practice "without touching those special proposals which are most likely to give "rise to doubt or apprehension." Your Committee may observe that at this late period of the Session they would have hesitated to report upon any enlarged scheme dealing with the whole subject of Extra Receipts, and with all the disputed points, but they have felt that they might usefully report upon this proposal, which, though making an important advance in the right direction, must be considered as tentative and not as a final settlement. For the above reason your Committee have refrained from examining in detail into Mr. Mills's scheme, which certainly indicates a more complete reform of the question, and the establishment of a consistent and uniform system for the whole Service. That scheme, however, involves, *inter alia*, an alteration in the form of Parliamentary Proceedings, upon which those who are most competent to form an opinion are not agreed; and it is mainly, if not entirely, upon this ground that the Treasury have hesitated to adopt the plan, and have proposed the more limited scheme now under consideration.

Civil Services and Revenue Departments.—Legal and other Fees levied by Means of Stamps.

5. The Treasury in their scheme set aside the question of Extra Receipts so far as it relates to the Civil Services and Revenue Departments. The rule in those Departments is that Extra Receipts should be paid into the Exchequer; and the present practice, though not altogether free from objection, gives rise to comparatively few questions of difficulty. Your Committee, however, note that the Treasury propose to take steps for causing fee stamp receipts to be brought to account under the head of Miscellaneous Revenue.

(26.) *My Lords . . . stated, in the 28th paragraph of their Minute of 27 June, that although they did not propose to touch the Extra Receipts of Civil and Revenue Departments, they would cause fees taken by means of stamps in legal departments to be brought to account, not as Stamp Revenue, but as Miscellaneous Revenue, to which class of receipt it more properly belongs, and the Committee, in the 5th paragraph of their report, take note of the proposal thus made. My Lords have considered the Acts under which such fees are taken in stamps, and they do not find any provision making them stamp duties, properly so called, under the control of the Commissioners of Inland Revenue. The Public Offices Fees Act, 1879 (42 & 43 Vict. c. 58), empowers the Treasury to direct that any fees now taken in any office by way of stamps shall be taken in money, and vice versa.*

Changes of this kind have taken place, and whenever such fees are taken in money the money is paid to the Exchequer as Miscellaneous Revenue. On the other hand, whenever such fees are taken in stamps,

the Inland Revenue has always treated the proceeds of the stamps as part of their stamp receipts. Thus, the Home Office fees (as the result of a mere change of system in taking the fees) were in one year included in Stamp Revenue, and in the next they appeared as Miscellaneous Revenue. It is clearly desirable that one principle should regulate the treatment of these fees, and my Lords have no hesitation in stating their view that such fees are payment by individuals for specific services performed; and, as such, do not form part of taxation properly so called, but should be classed with other miscellaneous receipts of similar character. My Lords propose, therefore, to transfer them, in the Estimates and Accounts of the year 1882–83, *from the head of Stamp Duty to that of Miscellaneous Revenue.*

There are two classes of fees somewhat analogous to those which have been named, viz.,(1) *fees on patents for inventions;* (2) *fees on stamps in the Registration of Designs branch of the Patent Office; viz., those payable on the complete registration of designs; while other receipts in the same branch (for registration of copyrights of designs, &c. &c.) are received in money, and paid to the Exchequer as Miscellaneous Revenue. It appears to my Lords that these fees are Revenue Stamp fees under the Acts regulating them, and that as such they fall under the exception contained in Section* 7 *of the Public Offices Fees Act,* 1879 *(above mentioned), which provides that nothing in the Act shall apply to duties granted to Her Majesty, and under the control of the Commissioners of Customs or the Commissioners of Inland Revenue. They are, however, in their nature payments for a service rendered, and therefore fall rather into the category of Miscellaneous Revenue than of Stamp Revenue, and my Lords propose to take powers in the next Customs and Inland Revenue Act to transfer them from the head of Stamp Revenue to that of Miscellaneous Revenue.* When this has been done, the Returns of Revenue will be simplified, and the receipts paid into the Exchequer derived from taxation properly so called will be readily divided and distinguished from receipts which are not the produce of taxation. . .*

Naval and Military Departments.—Summary of Scheme.

6. The proposal as to dealing with the Extra Receipts of the Naval and Military Departments may be briefly stated as follows:

(*a*) It is proposed to take in aid of expenditure all the sums which are now payable to the Exchequer as Extra Receipts. Taking as a basis the year 1879–80 it is shown that as regards the Army Estimates a sum of about £735,000 (exclusive of the sum repaid by India for Home charge of troops in India, which form the subject of a special arrangement) belonged to this class of Extra Receipts payable to the Exchequer as against nearly £930,000 taken in aid of Votes; and as regards the Navy Estimates, the Extra Receipts payable to the Exchequer amounted to about £190,000 against more than £630,000 used as Appropriations in Aid, or as deductions from the Votes for the various services.

(*b*) It is proposed that each Vote of the Army and Navy Estimates shall provide the gross estimated expenditure under that Vote, and that from the gross totals thus arrived at the estimated Miscellaneous Extra Receipts, *i.e.*, not the sums falling due, but those actually to be collected within the financial year, shall be deducted, and the net remainder voted.

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* *See* 45 & 46 Vict. c. 72, s. 16, and 46 & 47 Vict. c. 57, ss. 24 & 56.

The gross estimate of expenditure will cover all charges for stores or services to be supplied or rendered to other Governments and Departments, &c., *when such stores and services must necessarily become a charge, in the first instance, against the Vote.* But it will not include provision for payments made by the War Office, in the capacity of simple agents for another Department, *when such payments are capable of being treated as advances, and charged direct to the Department at whose instance they have been made;* because there is a clear distinction between these two classes, and because any other course would merely swell the gross expenditure *of both* the Departments, whereas it is desirable to avoid the unnecessary and, so to speak, unmeaning exaggeration of these totals.

(*c*) The Appropriation Accounts will afford a comparison between (1) the gross estimated expenditure with the actual gross expenditure; (2) the estimated receipts with the actual receipts; and (3) the net estimated expenditure with the net actual expenditure, so that the Comptroller and Auditor General will have before him the whole expenditure of the Department and the whole receipts. If the receipts should exceed the estimates, the covering sanction of Parliament for the employment of such excess is to be obtained, as at present in the case of the Army, by means of a special resolution.

(*d*) It is further proposed that an item be added on the face of the Appropriation Account, distinct from the totals of that Account, exhibiting the total payments and recoveries for services performed for other Departments, which have been treated as advances outside the Votes. Parliament will thus be kept fully informed of all inter-departmental pecuniary transactions of every kind.

7. It will be seen that the Comptroller and Auditor General, while admitting that this scheme " is well worthy of adoption as part of an " intended general plan for dealing with such receipts on a uniform " basis," is of opinion " that the two Departments should be required to " pay over to the Exchequer any excess of Extra Receipts beyond the " total amount appropriated by Parliament in aid of the expenditure of " the financial year."

8. It is admitted that, under the present system, a Department can use in aid of its expenditure any excess of Appropriations in Aid beyond the amount estimated, subject, in the case of the War Department, to sanction by a subsequent Resolution of the House of Commons. It may be, however, observed, that no such Resolutions have been passed in the case of the Admiralty; and there is much force in the comments of the Comptroller and Auditor General upon the small value hitherto attached to this *ex post facto* sanction, which has been passed, almost as a matter of form, at the end of each Session. It may, however, be fairly assumed, now that attention has been specially directed to this point, that these Resolutions will not in the future be passed without observation.

Scheme approved.

9. After a careful consideration of the papers and evidence laid before them, and of the arguments urged for and against the proposed scheme, your Committee are disposed, subject to details which may be found necessary in working out the plan, and to the modification hereafter stated, to agree generally with the Treasury scheme. They agree that the Naval and Military Departments should be allowed to use in aid of expenditure all receipts arising on the Votes which they administer, it being understood that moneys received by one Department from another

to meet payments which are capable of being treated as advances and charged direct to the Department at whose instance they have been made, will be excluded, as now, from the Estimates.

(10.) *My Lords accordingly request the Secretary of State for War and the Board of Admiralty to prepare their Estimates for the year* 1882–83 *upon the basis of the scheme described in the Treasury Minute of* 27 *June last. For that purpose provision should be made in each Vote of the Army and Navy Estimates for the gross total expenditure to be incurred under that Vote. The extra receipts expected to be realized within the financial year under each Vote should be deducted from such gross estimated expenditure, and the net remainder only should be voted by Parliament as a grant out of the Exchequer.*

(11.) *The Extra Receipts forming the subject of this Minute, and hitherto payable to the Exchequer, should be credited to the several Votes in the manner indicated by the Table annexed to the Treasury Minute of* 27 *June; and if any new class of receipt should at any time be anticipated, the Secretary of State for War and their Lordships of the Admiralty will decide, with Treasury sanction, the Vote to which such receipt is to be credited. It is desirable that the Estimates of the year* 1882–83, *and probably of a few succeeding years should contain a Table showing the amounts which would have to be voted under each head if the changes now ordered had not been made. In the comparison of the Estimates of* 1882–83, *with those of* 1881–82, *the amounts stated for the latter year will, of course, be revised upon the new system, or be otherwise explained, in order to enable just comparisons to be made.*

(12) *The Vote for the Home charges, effective and non-effective, of Her Majesty's troops serving in India, will continue to be taken as at present, equivalent amounts being deducted, as at present, from the gross Estimates of Army Expenditure.**

(13.) *The gross Estimate of Expenditure will cover all charges for stores or services to be supplied or rendered to other Governments or Departments, &c., when such stores and services must necessarily become a charge, in the first instance, against the Vote. But it will not include provision for payments made by the Estimating Department, in the capacity of simple agent, when such payments are capable of being treated as advances by an agent, and charged direct to the principal Department at whose instance they have been made.*

My Lords note that this provision has the approval of the Committee.

(14) *My Lords think that these rules will meet the case of all inter-departmental services and payments. Under them, the charge of services, such as the Army Transport Service prepared by the Admiralty, and the cost of ordnance supplied by the War Office to the Navy, will continue to be borne as a final charge on the Estimates of the Naval and Military Departments respectively. My Lords are well aware of the plea that in such cases the Department, for which the service is performed, has no incentive to economy, since it does not pay the cost of such service, and there is doubtless much force in this argument, but it is desirable not to widen unnecessarily the scope of the present Minute. My Lords will not therefore inquire now whether the Supplying Department should or could be protected against excessive or needless demands on the part of the Department which is to profit by the Service. If, however, the Secretary of State, or their Lordships of the Admiralty,*

* The separate Vote was continued in 1884–85 and receipts from India have since been appropriated in aid of Army Votes; *see* P.A.C. 2. 1884. 181.

*have any suggestions to offer on the point, my Lords will be glad to receive and consider them, as a subject supplementary to the changes which the present Minute will introduce.**

(15) *The Appropriation Account will compare*—(1) *the gross estimated expenditure with the gross actual expenditure;* (2) *the estimated receipts with the actual receipts; and* (3) *the net estimated expenditure with the net actual expenditure. Further, an item will be added on the face of the Appropriation Account, distinct from the total of that account, showing the total payments and recoveries for services performed for other Departments, which are treated as advances outside the Votes.*†

Receipts in Excess of Estimate.

9—*cont.* But they are of opinion that should there be an excess of such receipts beyond the aggregate amount estimated, such excess should be deducted from the grant out of the Exchequer authorized by Parliament, or should be paid into the Exchequer, if the grant has been already issued before the excess arises, or if such excess has not been applied to meet a special case, such as that referred to in paragraph 11.

10. If a Department find it absolutely necessary that the Estimated Expenditure for the year should be exceeded, they would have to present a Supplementary Estimate to Parliament, which, as in the case of the original Estimates, should show the gross estimated additional expenditure, and the estimated excess of receipts over the amount originally estimated; and then, as in the case of the original Estimates, the net amount, if any, would be voted.

11. When extra expenditure has been incurred, which is only ascertainable on the making up of the accounts, and could not, therefore, have been made the subject of a Supplementary Estimate before such Expenditure was incurred, but which has been covered by an excess of Receipts, the application of such excess would have to be sanctioned, as is the case now in the War Department, by a subsequent Resolution of the House. Your Committee desire, however, to point out that such cases ought never to be of any magnitude, and that they arise in general from extra expenditure having been incurred at different places distant from this country, and when there may not have been time for communication with the Home authorities.

12. Should it be thought that a Vote would attract more attention than a formal Resolution, it may deserve consideration whether, if practicable, an Excess Vote might not be taken in the last case. Such a vote would be made up exactly as the other Votes, showing (1) the gross deficiency; (2) the excess, if any, of receipts over the estimated amount; and (3) the net deficiency, if any, to be voted.

(17.) *It is clear that if the Departments realize receipts in excess of their Estimate, and are allowed to use such excess, they would have at command a larger sum than Parliament had contemplated; but my Lords considered that a remedy had been provided against abuse of this power, since the Committee of Public Accounts would have the facts duly reported to them upon the Appropriation Accounts, and if the*

* The provision for Army Transport was transferred to the Army Estimates and for Naval Armaments to Navy Estimates, in 1888–89.

† Statements of these payments and recoveries were appended to Army and Navy Appropriation Accounts till 1895–96, but were then discontinued as practically useless for the purpose for which they had been instituted. (*See* Appropriation Accounts,1896–97: Army, H.C. 49, 1898, p. 184; Navy, H.C. 50, 1898, p. 181.)

Committee were not satisfied, Parliament would doubtless regulate its action accordingly. But the primary object of the Treasury, as well as of the Committee, is to complete and secure the control of Parliament over the public expenditure, and my Lords have therefore no hesitation in adopting the recommendation of the Committee, with such slight modification as convenience suggests. They therefore lay it down as a rule that the total amount of Extra Receipts which may be applied in aid of the gross Expenditure in any year is to be strictly limited by the total amount of the Estimated Extra Receipts as shown in the Estimates for the year, and that any excess of actual Receipts beyond the total of the Estimated Receipts will, when ascertained, be surrendered in the same manner as ascertained Surpluses on Grants are now surrendered. In order to give complete effect to this rule, it will be necessary to watch more carefully than hitherto the growth of the Departmental receipts. My Lords will accordingly request the Secretary of State and the Board of Admiralty to furnish them with a statement of the realized receipts, under the classification contained in the Estimate for the first half of the financial year, as soon as may be practicable after 30 September, and, for the three quarters (excluding, if necessary, foreign receipts), as soon as may be practicable after 31 December; and, further, to accompany the last-named statement with an Estimate of the amount expected to be realized in the whole year. These statements, it is evident, will be useful to the Treasury in regulating Exchequer issues. My Lords apprehend that there will not be much difficulty in ascertaining the actual amount of receipts in the United Kingdom, but there may be more difficulty abroad. The amount of receipts, however, at foreign stations is probably not large, and will not materially affect the question. My Lords would be glad if the Secretary of State for War and the Board of Admiralty will furnish them with a statement of the Extra Receipts realized at home and at foreign stations, respectively, in the last year for which accounts are complete.

(18.) *It will be seen that the Departments under these regulations will be forbidden to use funds in excess of the amounts sanctioned by Parliament. If necessity for further expenditure should arise, they must present a Supplementary Estimate, or if an excess of expenditure should occur and should not be detected until after the close of the year, such excess will appear in the Appropriation Accounts, will be reported on by the Comptroller and Auditor General, will be investigated by the Committee of Public Accounts, and will receive the covering sanction of Parliament in the same manner as any other excess upon a Vote. That sanction will be given in the form of a Vote as in the case of other excesses, and thus, my Lords believe, the recommendations of the Committee will be effectively satisfied.*

(19.) *In connexion with this part of the subject, my Lords may remark that under the new regulations the control of Parliament over Army and Navy expenditure will be more complete than hitherto, for at present, in the case of Receipts due to the Exchequer, the Military and Naval Departments can use them, subject to subsequent detection by the Comptroller and Auditor General, while, in the case of Receipts not due to the Exchequer but applied in aid of the Votes, the Department collecting them can now legally use any excess of them beyond the Estimate, subject, in the case of the War Office, but not of the Admiralty, to the necessity of obtaining sanction for the act by subsequent Resolution of the House of Commons.*

(20.) *The Comptroller and Auditor General and the Committee of Public Accounts itself appear to consider the subsequent sanction of*

Parliament for an excess as more or less formal. My Lords, however, attach greater weight to that sanction. If the Committee of Public Accounts will treat an excess as a financial offence, only to be condoned upon satisfactory explanation, there can be little doubt that the subsequent sanction of Parliament would be by no means a mere formality.

(21.) *Before quitting the question of excess of receipt beyond Estimate, my Lords will offer one criticism on the scheme as modified. It may happen that India or Foreign Governments will obtain stores much in excess of the amount estimated for such destination. The Departments, however, will not be at liberty to use the extra sums thus received in replacing the stores which have been issued, but they must either deplete their stocks, or obtain a Supplementary Estimate, although they have not incurred expenditure in the conduct of their own service beyond the original Estimate. My Lords understand that the Departments do not attach great weight to this objection; they therefore merely record the fact, adding, that they will be glad to learn the views of the Secretary of State and the Board of Admiralty upon the subject.*

Stores.

13. Passing now to other points referred to in the Treasury Minute, and connected with the working out of the proposed scheme, your Committee learn with satisfaction that the Treasury "have in view the "adoption of independent measures by which Parliament shall be duly "informed of any material variation in the state of the balances of the "stocks of these Departments." As bearing upon this subject of stores, the suggestion of the Comptroller and Auditor General that there should be an inquiry into the departmental practice with reference to the condemnation and sale of stores deserves consideration.

14. Your Committee desire also to express their approval of the Rule, proposed to be laid down by the Treasury, that the War Office and Admiralty shall not be at liberty to submit for the temporary sanction of the Treasury the application of savings on the Store Votes, unless they at the same time are able to declare in general terms that the stocks of stores for which those Votes provide were maintained at their ordinary amount at the close of the year in which such savings arose.

(22.) *My Lords noticed in their Minute of 27 June the possibility of the Naval and Military Departments receiving payment for stores issued to other Governments or Departments, but not replacing those stores. In that case they would obtain funds which would be applied to meet expenditure in excess of the Estimate on other heads. My Lords understand that the Naval Appropriation Account for* 1880–81 *will contain a statement of the value of stores in hand at the commencement and close of the year, and a first step will then be taken towards showing Parliament the result of the store as well as of the cash transactions of the Department during the year. Further, my Lords will lay down the rule which they request the Secretary of State and Board of Admiralty to cause to be observed, viz., that whenever they ask Treasury sanction for the temporary appropriation of a surplus on a Store Vote to other purposes, the request shall be accompanied by a general statement that the stock of stores for which such Vote was granted, is being maintained at its normal amount.*

(24.) *Lastly, the Secretary of State and Board of Admiralty will observe that the Committee notice the suggestion of the Comptroller and Auditor General that there should be an inquiry into the Departmental*

*practice with regard to the condemnation and sale of stores. My Lords would be glad to receive the views of the two Departments upon this proposal.**

Agency payments: Date of Charge.

15. And lastly, your Committee concur in the opinion of the Treasury upon inter-departmental payments, and the mode of treating them. They may express also their general concurrence in the view of the Comptroller and Auditor General, that it is "of the highest "importance that steps should be taken to secure that all moneys spent "by one Department acting as agent for another, should be included "in the Appropriation Account of the latter for the year in which the "expenditure took place, and that the same rule should be enforced, "as far as possible, in the case of supplies issued by one Department "to another on repayment."

(23.) *My Lords agree with the Comptroller and Auditor General, and with the Committee, that it is extremely desirable that payments made by one Department which are repayable from the Votes of another should as far as possible be brought to charge in the accounts of the latter for the year in which such payments were made by the Department acting as agent; and that the same rule should apply in regard to the value of stores issued by one Department to another on repayment.*

The desired result can only be attained by the prompt rendering and settlement of such inter-departmental claims, and the attention of the Admiralty and the War Office was some time ago directed to this matter. In a Memorandum by the Treasury Officers of Accounts, of 18 June 1879, it was suggested that regulations should be adopted "for prompt settlement of accounts between the Departments," or for "requiring payments to be made on account, from time to time, of "amounts approximating to the sums due, leaving a small balance over "to cover any differences which may arise in the examination of the "claims" (6192/79); and the Treasury in transmitting a copy of this Memorandum to the Admiralty and War Office in their letter of 24 June 1879, stated that they attached great importance to the early settlement of all inter-departmental accounts, and desired to press on the Departments the necessity of the course suggested by the Treasury Officers of Accounts. In the views thus expressed by their predecessors my Lords entirely concur.

REPORT, 1882. H.C. 269.

Treasury Minute, 23 December 1882.

CIVIL SERVICES.

CLASS I. VOTE 5.—PUBLIC BUILDINGS, GREAT BRITAIN.

Contract Penalties, &c.

1. Under Subhead A., the Comptroller and Auditor General calls attention to two cases in which he considers a departure has been made from the usual practice in accounting for Civil Service Votes. Your Committee are disposed to concur in his view, and consider that in the first case the sum of £675, which was incurred as a fine, and in the second case the sum of £55 13*s.* 6*d.*, which was in the nature of a profit, should have been paid over to the Exchequer as Extra Receipts. Your Committee consider that these sums fell within the definition of Extra

* See P.A.C. 2. 1884. 169 at p. 164, and Minutes of Evidence 1884.

Receipts adopted by the Treasury in a Minute of 27 June 1881, as "moneys incidentally realized or recovered by Departments of the State "in the process of conducting services charged on Imperial funds." Whether the mode of dealing with Extra Receipts, which has recently been adopted in the Naval and Military Departments, should be extended to the Civil Services and Revenue Departments, is a question into which your Committee will not now enter; but until a change is made, they think the present system should be rigidly adhered to, although some inconvenience may possibly arise in special cases.

In the 1st and 72nd paragraphs of the Report the Committee refer, in connexion with the Grants for Public Buildings, Great Britain, and the Post Office Packet Service, to two penalties on contracts. These sums were deducted from the claims of the contractors, and were therefore not charged as expenditure to the Vote, whereas the Comptroller and Auditor General holds that the full claim of the contractors should have been paid, and that these penalties should have been treated as extra receipts payable, according to the usual practice in accounting for Civil Service Votes, into the Exchequer. The first case was that of a penalty incurred by a contractor who undertook the alterations at Winchester House. The amount of the contract (subject to penalties for non-compliance with the stipulated terms) was £1,271 11s. 8d., but the contractor incurred penalties amounting to £675, and that sum, in making payment for the work, was abated from the full amount of the contract price. The proceeding was questioned by the Comptroller and Auditor General, but received the sanction of the Treasury. In the Report of the Comptroller and Auditor General he stated that "the sum due under this contract was £1,217 11s. 8d." In the opinion of my Lords this view is not correct. The diminished sum actually paid was the full legal claim under the contract itself.

The second case related to a similar abatement from the full contract price for the conveyance of certain Post Office mails; the sum abated being a penalty under the contract for non-fulfilment of conditions upon which full payment depended. In this instance also the point had been referred to the Treasury, who decided that "the sum forfeited is "properly abated from the full amount of the contract price, and the "amount actually due and paid to the contractor is the amount with "which only the grant is chargeable." The Comptroller and Auditor General, on the contrary, contended that "when a service has been performed, the contract price" (meaning the maximum limit of the contract) "has been earned, and should be charged in the Account."

The Committee, in regard to these cases, state that they are disposed to concur in the views of the Comptroller and Auditor General. They consider that these sums "fell within the the definition of extra receipts "adopted by the Treasury in a Minute of 27 June 1881, as moneys "incidentally realized or recovered by Departments of the State in the "process of conducting services charged on Imperial Funds."

My Lords find themselves unable to agree with the Committee on this point, as they think they can show that the definition just quoted was not intended by them to cover sums of the nature of those under notice.

It will be seen from a Memorandum which Mr. Welby laid before the Committee (and which for convenience is appended to this Minute) that decisions have been given by the Treasury in recent years in various analogous cases to the same effect as those which are now questioned. Those decisions were given while the Extra Receipts question was still in abeyance, because the Treasury held that the transactions governed by them were outside the discussion and capable of being dealt with on their*

* See page 128.

simple merits, without affecting the pending settlement. My Lords omitted reference to those decisions in the Minute of 27 June 1881, because they had no intention of reversing them. If they had intended such reversal they would certainly have specifically mentioned it. They are not, however, prepared to include in the Public Cash Accounts, as actual receipts of money, sums which have not been received, or to record sums, as actual payments of money, which have not been paid.

The contention of the Comptroller and Auditor General may perhaps be more clearly understood by applying it to mercantile or private accounts. It would thus be somewhat analogous if a merchant, or a private person, in the case of a ready-money transaction were to show in his Cash Book as an actual receipt the "discount for cash" allowed to him by a tradesman on payment of an account, and to charge as a part of his expenditure the full amount from which this discount had been abated.

In the opinion of my Lords, the Treasury is bound to see that sound principles of account are not violated, and that simple rules of book-keeping are not complicated on insufficient grounds, especially when the result will give incorrect statements of the cost of the Public Service, and when it does not tend to increase or to preserve the financial control of either the Treasury or the House of Commons.

*Then there can be no question of the clearness of the distinction between actual receipts of money in Civil Departments and abatements of sums which are not legally due, and, as the Committee base their recommendation upon a certain interpretation of the Treasury Minute of 27 June 1881, my Lords believe that the objection of the Committee to the course which has been pursued will be removed on learning that the Treasury did not intend in the Minute in question to express the opinion attributed to them.**

The Vote for Public Buildings raises another question of extra receipts, differing, however, in character from that of fines on contractors discussed in the preceding paragraphs. The Office of Works incurred a slight expense in repairing Chelsea Embankment, and doubt arose whether that expense should be charged to the Vote for Public Buildings or to an unappropriated balance of the Purchase Money paid by the Metropolitan Board of Works for Chelsea Bridge remaining in the hands of the Office of Works. The Office of Works stated that provision had been made in the Vote for any outlay on the embankment, but they also stated that the balance of the purchase money above mentioned was available for this service. My Lords did not consider that there was evidence in the Estimate laid before Parliament that the charge in question had been removed from the Special Fund which had previously borne it, or that provision had been made for it in the Vote. The Comptroller and Auditor General not unreasonably accepted the statement of the Office of Works that provision had been so made, and that the expenditure should therefore have been charged to the Vote; and the Committee concur in that view. My Lords hold that it is not sufficient for the Estimating Department to state on a subsequent occasion that provision was made for a certain service in the Estimate, if the wording of the Estimate does not fairly cover the service, even although the amount of the Estimate should be sufficient to bear it. If that plea is generally admitted, the Treasury and Parliament may find themselves committed to expenditure of which they had no cognizance. The Committee, however, are satisfied on the point, and my Lords, having noted the danger which the precedent might entail, will not urge their view further. If the Committee desire it, the sum can be charged

* See also pp. 137–8.

*to the first Vote open, and paid into the Exchequer, but my Lords would suggest that it is not desirable now to attempt a rectification of the transactions.**

Appendix to Treasury Minute.

MEMORANDUM as to Treatment of Sums deducted from the Accounts of Contractors, by way of Penalty or Forfeiture, under the Terms of the Contracts.

The "fine" or penalty abated from the claims of a tradesman under the terms of his contract is in no sense *a receipt* of money. It is a sum which, to be even technically received, must also be technically paid. But it is not only *not* technically paid, it is not even claimable or due, and it therefore can neither be properly paid, nor charged in the accounts as a payment.

The remarks of the Comptroller and Auditor General in his Report upon the account of the Grant for Public Buildings, Great Britain, 1880–81, would lead to the inference that the Treasury, in adopting the above view, has changed the recognized practice. This is not so; the Treasury has acted upon the same principle in every case which has been brought under its notice in recent years.

In 1875 the Controller of the Stationery Office asked the Treasury how he should deal with certain deductions of this nature. He had previously been in the habit of actually paying the contractor *in full*, and requiring him to pay back to the Paymaster General the amount of the penalties incurred for non-fulfilment of contracts. But having failed to recover in one particular case (through the bankruptcy of the contractor), the Controller of the Stationery Office was informed by the Treasury Solicitor "that to "pay in full under contract, and then to claim a return for "penalties under the same contract, was a system that could not be "sustained in a court of law."

The Treasury told the Controller of the Stationery Office that the sums actually paid to the contractors represented the cost of the goods, and should be so treated, the deductions not being of the nature of extra receipts.

The Education Office in Ireland, in 1878, represented that they had been in the habit of paying to the Exchequer, as receipts, the fines deducted from teachers' salaries (under the rules) for irregularities of various kinds.

The Treasury ruled that "as the deductions in question represent "sums to which the teachers are not entitled, they must not be "dealt with as receipts of money, and that the expenditure charged "against the Grants of Parliament must only include the sums "which are actually due and paid to them."

The principle thus maintained by the Treasury has in fact already been discussed before the Public Accounts Committee in connexion with the fines imposed upon officers in the Convict Prison Service. In 1876 the Comptroller and Auditor General raised a question as to a diversity of practice in the manner of treating these fines, and then contended, as now, that the gross pay of the officers (though not actually paid) should be charged in the accounts, and the abatements for fines be treated as receipts and paid to the Exchequer. The Treasury disagreed, and the matter came before the Public Accounts Committee in 1877 and 1878. The Treasury view was finally assented to by the Committee, and the same principle was extended to the case of the prison officers in Ireland in a later year.

It will thus be seen that the Treasury has not made any new departure, nor set up any inconsistent rule, affecting the practice of dealing with extra receipts in Civil Departments. On the contrary, the Treasury holds that these abatements of sums which become forfeited have no connexion whatever with the extra receipts question, inasmuch as such abatements are in no sense receipts of money. The Treasury would, in any case, consider it undesirable to

* See also pp. 136–9.

increase fictitiously the actual receipts and expenditure of a Department, by charging sums as expenditure merely for the purpose of paying them into the Exchequer as receipts; but in the present case they further hold that to charge a Vote with a sum *not actually paid, and not legally payable*, is clearly contrary to the terms of the Appropriation Acts.

In the report of the Comptroller and Auditor General upon the Packet Service Vote for the year 1880–81, which is now before the Committee, he says, in reference to a sum abated as a forfeiture from the full contract price otherwise due to the contractor, that it appears to him "that when a service has been performed, *the "contract price has been earned*, and should be charged in the "account."

This expression indicates the very point on which the Treasury entirely differ. The price "earned" is the sum which is payable, and which the contractor could recover in a court of law. But the full price of the contract has only been "earned" when the service has been performed in strict accordance with the stipulations to which that full price is attached.

The Comptroller and Auditor General supports his views upon the ground that the Vote was taken for the contract rate, and that the effect of the abatement of a forfeiture, in making payment for the service, is to place at the disposal of the accounting officer "a greater sum than Parliament granted to him." It may similarly be argued that a Department obtains more money than Parliament intended when it effects the purchase of supplies or materials at cheaper rates than were anticipated when the Estimates were framed; and, by like reasoning, the full anticipated price should be charged against the Votes, and the difference treated in the accounts as a receipt, and paid into the Exchequer.

The answer is, that Estimates are in all cases framed to cover the sums *expected to be paid*, and that they are not binding *in details*. The principle that Parliament intends to limit the appropriation of the Grants to the *separate items* of each subhead of the Estimates on which the Grants are based, has never yet been laid down, and would probably be found to fail entirely in practice.

Treasury, 6 June 1882. *R. E. Welby.*

Class I., Vote 23.—Lighthouses Abroad.

Credit for Sale of Stores.

3. A sum of £68 5*s*., which arises from the repayment in the year 1880–81 of the value of oil supplied in the previous year to a Colonial lighthouse, has been credited, under Treasury sanction, to this Vote. The same case came before your Committee last year, and the Comptroller and Auditor General contended that the money should have been treated as an Extra Receipt, and paid into the Exchequer. For the reasons stated in the fourth paragraph of their Second Report, your Committee then refrained from offering an opinion on the case, but as it is again raised, they think it right to state that they concur in the opinion of the Comptroller and Auditor General. Any difficulty in the future may be removed by arranging with the Colonial Government that the money should be paid within the financial year in which the oil is supplied.

The Board of Trade will see that the Committee come to the conclusion that the sum, repaid in a financial year subsequent to that in which the store was supplied, should be carried to the Exchequer as an extra receipt.

If this were made the rule, it is evident that the statement of Imperial expenditure would be increased beyond the fact by the value of stores lent to other Governments, and although the sum in the present case is trifling, the principle thus admitted into the Public Accounts

is open to objection. My Lords can, at the same time, appreciate the reluctance of the Committee to allow Votes of after years to profit by repayments which should have been promptly recovered, and thus to lend approval to a certain laxity of practice. It cannot be difficult for the Board of Trade to insist upon prompt payment as a condition of the assistance which they lend to the Colonial Government.*

CLASS III., VOTE 1.—LAW CHARGES, ENGLAND.

Difference of Opinion between Committee and Treasury.

16. With respect to the charge for certain law costs at Pretoria, your Committee, after a full reconsideration of the case, agree with the opinion arrived at by the Committee of Public Accounts last year. From the evidence, such as it is, they consider that the charge was not properly a War charge, although such appears to have been considered its true character by the Treasury, but that it should have been placed under the head "Law Charges, England." No further steps, however, need be taken in the matter, as the action of the Treasury has received the covering sanction of the House of Commons. Your Committee feel bound, however, to observe that the Resolution, conveying that sanction, was passed without Debate, about two o'clock in the morning of the 16th of August, and that the point in difference between the Treasury on the one hand and the Comptroller and Auditor General and the Public Accounts Committee on the other, was not mentioned. Your Committee desire to express their opinion that where the action of the Treasury has been challenged by the Report of a Committee on Public Accounts, the attention of the House of Commons should be specially directed to the fact by those who represent that Department, when any Vote or Resolution is under consideration which affects the subject upon which the difference of opinion has arisen.

My Lords have accepted the view of the Committee that these expenses should have been charged to the Vote for Law Charges, England. There is therefore no longer any point at issue between the Treasury and the Committee. The Committee, however, point out that the Treasury on 15 *August* 1881 *obtained the sanction of the House of Commons to a resolution which approved the principle of charge adopted by the Treasury, although that principle had been questioned by the Committee of Public Accounts. My Lords desire to record their regret that they did not formally call the attention of the House of Commons to the difference of opinion existing between the Committee and themselves. They assumed that Members of the Committee would urge their views when the Resolution was proposed, but they admit that the nature of the Resolution might easily escape observation, and they can only state that they will in future specially direct the attention of the House to any Vote or Resolution affecting a subject upon which the Committee and the Treasury differ. My Lords wish at the same time to note that they did not intend by the Resolution in question finally to decide the point at issue. If on further consideration they had not accepted the view of the Committee, they would have submitted the question to the Committee for reconsideration, and it would only be on a principle of great importance that they would venture to contest the reaffirmed judgment of the Committee.*

VOTE 8.—WRECK COMMISSION.

Credit to Debit Subhead.

18. Your Committee consider that the Comptroller and Auditor General's view is correct, and that the sum of £73 6*s.* 11*d.*, received

* See also pp. 136–9.

from the owner of the " Yenicali," being part of a sum which he was condemned to pay by the Wreck Commission, should have been treated as an Extra Receipt, and paid into the Exchequer.

To the Wreck Commissioner.—I am to ask whether this was a casual incident, or whether costs may be expected to form a regular item of receipt. [See also pp. 136–9.]

VOTE 38.—DUNDRUM LUNATIC ASYLUM, IRELAND.

Pecuniary Responsibility of Heads of Departments and Accounting Officers.

33. Your Committee agree with the Comptroller and Auditor General that the further sum of £14 16*s*. 2*d*., which has been paid in this case is not properly chargeable against this Vote; but as the officers responsible for the expenditure admit the error, your Committee are disposed to agree with the Treasury in thinking that the personal charge need not be pressed. It should, however, be made clear that such a persistent disregard of an Order in Council will not in the future be overlooked. A correspondence on the subject will be found in Appendix No. 4.

It happily occurs but seldom that Heads of Departments or Accounting Officers order expenditure not permitted by superior authority, but it is very desirable that they should understand how serious a responsibility attaches to such an act. An instance in point occurs in the 33rd paragraph of the present Report of the Committee of Public Accounts, and my Lords think it may be useful to invite the attention of the Departments (including the War Office and Admiralty) to the case by circular.

Let the following circular therefore be sent out:—

Questions have at times been addressed to the Treasury showing that Heads of Departments and Accounting Officers do not always know the liability to which they subject themselves, if they order expenditure contrary to Act of Parliament, Order in Council, or other regulation of superior authority. An incident which occurred lately illustrates the nature and extent of the responsibility thus incurred, and the Lords Commissioners of Her Majesty's Treasury think it advisable to state the case for the information of the officers in question.

In the year 1879–80 *a watchman was nominated for service at Dundrum Criminal Lunatic Asylum in Ireland. He failed, however, to obtain the examination certificate required by Order in Council, and was thereby disqualified for the post. The Senior Inspector, with whom rested the appointment, and the control of the Department to which the Officer belonged, nevertheless continued to employ him, and directed that payment for such employment should be made out of the Vote, although the Accounting Officer pointed out to the Senior Inspector that he had no authority to do so.*

The Comptroller and Auditor General of course reported to the House of Commons for disallowance the amount so paid on the order of the Senior Inspector, in contravention of the Order in Council.

The Treasury refused to relieve the Senior Inspector of his responsibility, and the Committee of Public Accounts confirmed the disallowance. The Treasury thereupon directed that the sum disallowed should be recovered personally from the Senior Inspector, who now became aware that he had incurred grave responsibility. His explanation was, in fact, that he had acted in good faith and as he believed in the interest of the Public Service, that is to say, that he had set aside the superior authority because he thought it mistaken. The Treasury consented, on receiving from the Senior Inspector his acknowledgement

of error, to waive the personal claim, provided always that the Committee of Public Accounts took the same view. The Committee agreed with the Treasury, but they added that it should be made clear that "such a persistent disregard of an Order in Council will not in the future be overlooked."

Accounting Officers will understand that if they are desired by their superior officers to order a payment which, under Act of Parliament, Order in Council, Queen's Warrant, Treasury Minute, or otherwise, they believe to be wrong, they must represent their objection, and the reason for it, to such superior officer in writing. If the order is then repeated in writing, they may obey without further responsibility, but if the officer directing the payment is not the supreme chief of the Department they should ask to obtain the authority in writing of such chief before obeying. The responsibility is then transferred to the directing officer, who will be held personally liable. The Report of the Public Accounts Committee shows that the action of the Treasury in enforcing such liability will be supported by the Committee, and my Lords are anxious that there should be no misunderstanding on this point throughout the Service.

CLASS IV., VOTE 1.—PUBLIC EDUCATION, ENGLAND AND WALES.

Claims Abandoned.

35. . . . . The amount [of] over-payments must be large, and your Committee consider that before the Treasury sanction the abandonment of proceedings to recover such amount, they should be satisfied that the difficulty and disadvantages in pressing these claims outweigh the loss which would accrue to the public by the abandonment.

T.M. 27 November 1883 on Third Report 1883.— . . . Whenever their authority s sought for the abandonment of claims for over-payments [my Lords] will observe the recommendation contained in paragraph 35 of the Report, 1882.

CLASS VI., VOTE 3.—RELIEF OF DISTRESSED BRITISH SEAMEN ABROAD.

Expenditure not within Terms of Vote.

61. Exceptional payments, such as those referred to in the first paragraph of the Comptroller and Auditor General's Report, which do not come within the terms, though perhaps within the spirit of the Vote, ought to be submitted to the Treasury.

My Lords may, they think, take it as agreed that exceptional payments not coming within the strict definition of a Vote will be submitted for Treasury approval.

Claims Abandoned.

62. Your Committee see no ground for interfering with the discretion of the Board of Trade as to recovering from the Colonies expenses incurred in respect of Colonial seamen. They concur in the view of the Treasury that where there is a doubt, and especially a legal doubt, in any individual case, such case should be submitted to the Treasury, and Treasury sanction obtained, but that in those cases in which the Board of Trade entertain no doubt as to the inadvisability of pressing claims, it is sufficient to submit a schedule for the covering assent of the Treasury without entering into the details of each case.

They are glad to see that in paragraph 62 the Committee approve the agreement between the Treasury and the Board of Trade on the subject of abandoned claims. The Committee of Public Accounts had in 1876 expressed an opinion that money claims of departments should

not be abandoned without the assent of the Treasury. A difficulty arose in defining a money claim, and the Treasury, not wishing to hamper unnecessarily the Board of Trade, left it as a matter of understanding to that Board to bring before my Lords claims as to the validity of which there was no legal doubt, and the abandonment of which would therefore require to be considered on the merits of each case. But in regard to claims as to the validity of which a legal doubt existed, my Lords were willing to accept the opinion of the Solicitor to the Board of Trade, and upon his recommendation to give their covering sanction to the abandonment without inquiry.

REVENUE DEPARTMENTS.

VOTE 4.—POST OFFICE PACKET SERVICE.

Contract Penalty.

72. Your Committee concur in the view taken by the Comptroller and Auditor General in treating the penalty incurred by the contractor as an Extra Receipt. [*See Treasury Minute, after paragraph* 1 *at p.* 126, *and also at pp.* 133–9.]

ARMY APPROPRIATION ACCOUNT.

Widow's Pension.

91. Section 33, Vote 20.—Without disputing in any way the action of the Secretary of State in granting the pension to a widow whose claim had been twice rejected by former Secretaries of State, the circumstances were so peculiar, as involving payment of 34 years' arrears, that your Committee think that the Treasury should have been consulted, as they were in the case referred to in the last paragraph.

My Lords do not doubt that this expression of opinion by the Committee will be noticed by the Secretary of State.

Audit of Balance Sheet.

94. Section 38.—The Comptroller and Auditor General has thought it desirable to place on record his views as to how far his investigations into the Army Balance Sheet should be carried. The question is one of considerable importance, and is under the consideration of the Treasury. It seems to be agreed that the chief accounting authorities of a Department should feel that their responsibility is unshared with respect to the balances of their subordinate accountants, and that it is undesirable that an external audit should be more than superficially addressed to the balances of the sub-accountants of a Department.

Treasury Letter, 29 December 1882, *to the Comptroller and Auditor General (Army Appropriation Account,* 1881–82, *p.* 232).— . . . *as to the examination by you of the general balance sheets of the Army and Navy.*

You separate these balances into two classes: the first consists of external balances, or amounts due to or from some person or body external to the Departments, as well as balances of special funds under the direct control of the Admiralty and War Office; the second consists of internal balances, i.e., *amounts due to or from departmental sub-accountants.*

In your Report on the Navy Appropriation Account for 1876–77 *you interpret the Committee of Public Accounts to mean in the* 129*th paragraph of their First Report, presented in* 1877, *that the Audit Department should, by comparing the statement of ledger balances attached to the Appropriation Account with the books of the Department, and by a careful scrutiny of the balances on each of the several*

accounts, be in a position to call attention to any items which appear to require explanation on the part of the Departments, and my Lords learn from Mr. Treherne's letter, now under consideration, that you have since the date of the above-mentioned Report subjected the first of these two classes of balances to the inspection you described.

My Lords attach much value to this examination. It satisfies; in their opinion, the requirements of the case, and as you propose no modification of it they need not allude to it further.

With regard to the second class of balances, viz., those due to or from sub-accountants, my Lords consider it a most important principle of correct administration that the responsibility of the chief of a Department for the acts of his subordinates should be complete, and they are glad to find that you share their opinion. My Lords would not, therefore, on principle ask you to undertake the responsibility for the balances of sub-accountants even if the task were well within the capacity of your Department on its present footing. They, however, perfectly understand that while you accept no such responsibility, you do not preclude yourself from taking such steps as you think proper should the ordinary examination of Army or Navy Accounts discover any irregularities in connexion with sub-accountant balances, and they fully concur in this decision, which they gather to be now your rule of action. They need only add that they insist upon the limitation of cash balances to the exact requirements of the service. In the Civil Services at home they endeavour to confine the amount held to one month's expenditure. This rule, of course, must vary with circumstances, but the mention of this rough rule will suffice to show the object which my Lords keep in view, and any observations from you as to any particular balance or class of balances will have their ready attention.

Note.—The Committee of 1883 in their Second Report, paragraph 77, express their concurrence in the arrangement arrived at by the Treasury and the Comptroller and Auditor General.

Army (India Home Charges).

Pensions Capitalized.

101. Your Committee must express their great regret that some arrangement has not been arrived at with respect to the mode of payment of the arrears for Non-Effective Services. This matter has been already three years under the consideration of the Departments. Your Committee note that interest is to be charged in respect of these arrears.

As regards the non-effective Home charges of regiments serving in India, my Lords cannot justify the principle upon which, in consequence of the capitalization of pensions, larger sums have been within the year received into the Exchequer *than the amount of Indian pensions paid in that year* out of the Exchequer. *If, for example, the actual charge of Indian pensions paid out of the Exchequer in a given year was* £500,000, *but the capitalized sum received from India and paid into the Exchequer in that year was* £600,000, *a sum of* £100,000 *would swell the receipts of that year not only in excess of its due, but to the detriment of some future year. My Lords are anxious to place the payments on a sounder footing, and to secure that, approximately, the sums paid* into the Exchequer *on this account shall not more than counterbalance the sums paid* out of the Exchequer. *For this purpose it is necessary, approximately, to ascertain the charge of Indian pensions on the Votes in future years. They have asked that the War Office actuaries may make the necessary calculations, and when the result is received, there need be no delay in proposing an arrangement sound in*

*itself, and equitable both to this country and to India. It is necessary to bear in mind that while the Imperial Government is undertaking to pay life annuities for the Indian Government, it maintains no separate capital sum for the purpose, so that if the sum which it receives from the Indian Government in any year exceeds the sum payable for Indian annuities in that same year, the excess does not belong to the taxpayers of that year, but to the taxpayers of some future year, who will have to provide the Indian annuities corresponding to the excess, but will not have the benefit of this excess, unless it be paid over to the National Debt Commissioners, or be in some other way appropriated to the extinction of permanent debt. In no case should this admitted irregularity be allowed to extend beyond the close of the present financial year.**

NAVY APPROPRIATION ACCOUNT.

Sale of Stores to Private Individuals.

108. Section 19, Vote 10.—With respect to the supply of coals and naval stores to private individuals, your Committee attach great importance to a strict conformity with Article 69 of the General Instructions. They are of opinion that a printed requisition should be prepared, which should set out the conditions referred to in those instructions, and which should be signed by the person applying for the coals or stores. Such a requisition, coupled with the certificate of the officer granting the stores, would be a sufficient guarantee of the regularity of the proceeding. Your Committee will only add, that great care should be taken to secure the full price being given in such cases.

My Lords would be glad to learn that the remarks of the Committee . . . . will have the attention of the Admiralty.

GREENWICH HOSPITAL AND SCHOOL.

Authority for Expenditure.

126. Your Committee feel some difficulty in dealing with the important questions raised in the first paragraph of the Comptroller and Auditor General's Report as to the authority of the Admiralty in respect of the management of the Hospital, as they are purely legal questions, turning upon the construction of the Greenwich Hospital Act of 1865; but, upon the whole, your Committee concur in the view taken by the Admiralty. The words in Section 20 are very wide, and vest the government of Greenwich Hospital and of the Schools of the Hospital exclusively in the Admiralty. The only limitations in that section are that certain regulations for the admission of inmates into the Hospital and of children into the schools have to be approved by Order in Council, as have also the salaries of officers and clerks. The gratuity granted to the widow of a civilian does not fall within the gratuities which have under Section 5 of the Act to be regulated by Order in Council, and it was granted under the general powers of management. Your Committee, however, concur in thinking that cases of this kind, which they observe are treated as " exceptional " by the Admiralty, should be placed under a special subhead. The case of the subway also falls under the general management power, and your Committee are inclined to adopt the view of the Admiralty in thinking that Treasury consent is not necessary except in the special cases mentioned

* See also pp. 181–2, and Acts 48 & 49 Vict. c. 67, and 59 & 60 Vict. c. 28, s. 37.

in the Act of 1865. This point has not, however, been brought under the notice of the Treasury, and should be reconsidered.

The Committee generally concur in the view which the Admiralty take of their powers in respect of the management of Greenwich Hospital. Their recommendation that exceptional cases should be made the subject of a special subhead will doubtless receive attention. The Committee, although inclining to the opinion that Treasury concurrence is not necessary except in the special cases mentioned in the Act of 1865, think that the point should be considered with the Treasury. My Lords would be glad, therefore, to be favoured with the views of the Admiralty upon the question.

Extra Receipts, General Remarks.

Real progress has of late been made towards agreement between the Committee, the Treasury, and the Audit Office respecting the treatment of Extra Receipts. The Report, however, of the Committee shows that there is still room for divergence of opinion, and my Lords will, therefore, state briefly their principle of action, in order to identify the points, if any, on which the Committee may not at present wholly agree with them.

(1) *My Lords are opposed to the practice of charging the Exchequer twice for the same service because it increases fictitiously the public expenditure. They have, therefore, laid it down that one Department should not pay another Department for service rendered to it, and also that one Department should not repay to another Department the cost of stores, &c. supplied, when such payment or repayment involves duplicate charges on Exchequer Grants, and payment to the Exchequer by one Department of the amount received from the other.*

(2) *But although my Lords do not permit fictitious increase of the public expenditure, in order that each Department may show a complete statement of its own cost, they see no advantage in* needlessly *charging the cost of the service administered by one Department to the Vote of another Department. On the contrary, they think that, except when particular circumstances operate to make such a course inexpedient, each Department should show, and account for, its own cost. For that purpose they have introduced the principle of agency; and when it is advantageous for Departments to make use of other Departments for the performance of services, or for the supply of stores, my Lords have laid it down that such other Departments should as far as is practicable act merely in the capacity of agents, and should indeed, when the circumstances admit, simply certify to the correctness of the charge, and send the Bill for payment to the Department on whose behalf it was incurred. When this cannot be done, the amount is charged in the books of the Agent Department direct to the account of the other Department,* as an advance to be repaid, *and no question arises of a double charge upon the Exchequer. The cases which do not admit of this treatment are those in which articles are supplied by one Department to another* out of the stores which it has bought for its own use, *and the cost of which has of necessity been charged at the time of payment to its own Vote.*

*My Lords do not understand the Committee to take exception to these two rules.**

* For approval of Public Accounts Committee see Second Report, 1883, para. 4, at p. 141.

(3) *The Treasury Minutes of 27 June 1881 and of 1 February 1882, and the Third Report of the Committee of Public Accounts in 1881 (para. 9) show that the Committee, the Treasury, and the Audit Office are agreed that "the Military and Naval Departments should be allowed "to use, in aid of expenditure, all receipts arising on the Votes which "they administer, it being understood that money received by one "Department from another to meet payments which are capable of "being treated as advances, and charged direct to the Department at "whose instance they have been made, will be excluded as now from "the Estimates. . . . But if there should be an excess of such "receipts beyond the aggregate amount estimated, such excess should "be deducted from the grant out of the Exchequer, and should be "paid into the Exchequer if the grant has been already issued before "the excess arises.*

(4) *The proposal of the Treasury, which was approved by the Committee and by the Comptroller and Auditor General with the saving that the Naval and Military Departments were not to get the benefit of receipts in excess of the estimate, left untouched receipts realized under Civil Service or Revenue Votes, and the only questions in the present Report of the Committee arise upon receipts under these Votes.*

Four such questions are discussed, viz.:—

(a) *Paragraph 1.—The treatment of a receipt in a case where the Department stated that provision had been made in the estimate for the service to which the Treasury judged the receipt applicable.*

(b) *Paragraph 3.—The treatment in repayment of stores advanced to a Colonial Government in a previous year.*

(c) *Paragraph 18.—The treatment of a sum which the master of a vessel was condemned to pay under the Wreck Commission.*

(d) *Paragraphs 1 and 72.—The treatment of contractors' fines.*

The first point which strikes my Lords in reading the Report of the Comptroller and Auditor General, the Evidence before the Committee, and the Report of the Committee, is an apparent assumption that no alteration may be made in dealing with any civil or revenue extra receipt, unless it forms part of a general scheme dealing with the whole class of those receipts. My Lords are unwilling to acquiesce in an assumption which might leave mistakes uncorrected, and postpone indefinitely admitted improvements of practice. But apart from this consideration my Lords do not admit that they have made, as the Committee seem to think, any innovation of practice.

The second point which they note is the reluctance of the Committee to agree in any decision which apparently has for effect to place at the disposal of a Department a larger sum than Parliament granted to it. My Lords recognize the justice of this feeling, and it will guide them generally in their decisions on questions which may arise hereafter. It must, however, be applied within reasonable limits. It is impossible that an estimate framed in November or December for an expenditure of more than £50,000,000 spread over twelve months, commencing in the following April, can be correct in every particular. It is the duty of the executive Government to estimate fully for the requirements of the State. It is also their duty to satisfy those requirements as economically as possible, but every saving effected by a Department in the strict performance of its duty, places a sum at its disposal which was not foreseen at the time that the estimate was framed. If, then, Parliament be too jealous of the liberty which a Department may seem to obtain from the savings derived from its good administration, it more or less

encourages extravagance. The Committee has in effect full power to check improper use by Departments of legitimate savings or receipts without discouraging them in making those savings or realizing those receipts. In the accounts presented by the Department, and the reports of the Audit Office upon them, it sees the use made by the Departments of the moneys saved or received by them, and my Lords believe that this subsequent check, wisely applied, will be found more efficacious than any previous check. But in pointing out this danger, my Lords must not be understood as wishing to place at the disposal of Departments more than Parliament intended to give them, and therefore they say that they will be guided within reasonable limits by that which they understand to be the wish of the Committee.

In pursuance of this decision they accept the judgment of the Committee on the first of the questions mentioned above, but they think it their duty to point out that the estimate should bear on its face the services which it is intended to cover; for the Committee and this Board may find themselves in difficulty hereafter, if they allow Departments to say that provision has been made for a service in an estimate, unless this provision clearly appears on the face of the estimate itself. In refusing to be held as approving expenditure which has not been specifically submitted to them, my Lords believe that they simply maintain the constitutional practice which governs the method of submitting the public charges for the sanction of the House of Commons, and they presume that Parliament will not admit that it has voted expenditure not explained to it.

On the second question my Lords equally defer to the opinion of the Committee. They understand the Committee's recommendation to mean that stores lent should be replaced within the year, and that it is the duty of the Department making the advance to stipulate that the money is repaid within the year, or not to make the advance. In this view my Lords concur.

On the third question my Lords also defer to the opinion of the Committee. They considered that they were following the analogy of the Law Charges Vote in the decision which they gave, but they admit that the estimate did not so explain the matter, and therefore that it falls under the criticism which they have offered on the first question.

Upon the fourth question my Lords regret to find themselves at variance with the Committee; neither the Comptroller and Auditor General nor the Committee argue on this occasion that fines deducted from payments to contractors should as a matter of principle be treated as receipts. They do not assert that the accounts should state that a sum was paid to a contractor which was not paid to him, and that a sum was received from him which was not received from him.

The Comptroller and Auditor General raises his objection simply upon the fact that the course pursued by the Treasury was a departure from the usual course, and, as such, a departure from the understanding based upon the Treasury Minute of 27 June 1881. The Committee concur with the Comptroller and Auditor General avowedly upon that ground, but the Treasury deny that it is a departure from previous practice. The Assistant Comptroller and Auditor, in answer, stated in his evidence (Qs. 9 and 10) that the Audit Office was unprovided with precedents; the Treasury then submitted a memorandum showing with precedents the course which they had pursued. My Lords venture to ask the Committee to reconsider the question; for even if the precedents they have given were not held to show conclusively that there is no new departure in the case, they trust that the Committee will not decide that improvement in the method of dealing with a civil extra receipt

may not be considered upon its own merits. [See P.A.C. 2. 1883. 4 (c) at p. 142.]

My Lords may draw the following conclusion as the result of their consideration of the Committee's Report:—

1. *The exercise of any powers enabling a Department to spend on a particular service more than Parliament understood to be required, should be carefully watched.*
2. *My Lords adhere to the principle laid down in the Minute of 27 June 1881, that at present no change should be made in the manner of dealing with civil extra receipts, but they nevertheless consider that as questions of detail arise, or improvements in detail are suggested, the question and the improvement may be considered on its own merits.*

FIRST REPORT, 1883. H.C. 77.

Treasury Minute, 20 November 1883.

ARMY APPROPRIATION ACCOUNT.

Failure to present a Supplementary Estimate.

11. There is a Net Deficit of £44,197 2*s.* 6*d.* upon this Account. . .

12. Your Committee have endeavoured to trace the cause of this excess, and to ascertain how far it might have been foreseen and prevented, and upon a consideration of the evidence of the Accountant General, they are disposed to think that the War Department, in the circumstances stated in that evidence, would have acted more correctly if they had applied for a Supplementary Estimate in the early part of 1882.

13. As far as your Committee can judge, one disturbing cause in the Accounts was the expenditure in South Africa, and the difficulty in estimating such expenditure is increased by the late period at which the Accounts come in. Some consideration may also be given to the fact that a large mass of the expenditure comes in, half-yearly only in many cases, through imprest accountants, so that there is not the same facility afforded of knowing at once how much has been spent upon one Vote, and how much on another.

14. At the same time, with respect to this latter point, your Committee must observe that the sums issued as advances to the imprest accountants ought to be narrowly watched, and, if so watched, would afford a means of ascertaining the progress of the total expenditure, though the distribution of charge amongst the several Votes cannot be accurately ascertained till a later period. It must also be remembered that the War Office Votes are not treated on the same footing as the Civil Service Votes, inasmuch as the Appropriation Act sanctions the application of the surplus of one Vote to meet the deficiency in another.

15. But your Committee were surprised to learn that in addition to these general difficulties in the way of making an accurate calculation of the expenditure, a deficit of £70,000, or thereabouts, was incurred in the Store Vote, upon which Vote it was believed, apparently up to January 1882, that there would have been a surplus, or at all events that there would have been no deficit. This Department is especially under the control of the Office for the larger portion of its expenditure. The Accountant General could give no satisfactory explanation upon the matter, and the officer who had the charge of the expenditure at the time has left the office.

16. It appears to your Committee that if proper steps had been taken for the purpose there should have been sufficient information in January 1882 to have enabled the Department to make out a sufficiently accurate estimate of the probable expenditure and wants of the Department for the financial year.

17. In truth, the only defence put forward by the Department is that it was believed, as late as January 1882, that the surpluses on the whole accounts would be sufficient to cover the deficits.

18. Your Committee consider that the chances of such miscalculations being made would be, if not altogether removed, yet very much diminished, if a better system of rendering accounts prevailed in the War Office. They would suggest that the accounts should be kept closer up, and rendered at least quarterly, which they are informed was formerly the practice in the Office.

19. The course pursued in the Office with a view to ascertain the financial position of things, and to judge whether Supplementary Estimates will be needed, is fully explained by the Accountant General in his evidence. The statement that has been made out in the Department for the first half-year is looked to mainly as a guide as to whether the expenditure is going on at the ordinary rate or not. This information is supplemented by general inquiries of the heads of the Departments whether they think there is anything likely to arise which will cause a disturbance in the expenditure of their several Departments. Upon that half-yearly statement, and upon those replies, which, it is stated, are general and not in figures, a conclusion is arrived at whether money should be asked for.

20. Your Committee suggest that these inquiries from the heads of the Department and the replies should be more definite; that they should be in writing; and that they should be placed on record.

My Lords cannot but think that the observations in paragraph 14 *on the necessity of watching the progress of imprests, and in paragraphs* 15, 16, 17, *and* 18 *on expenditure from the Store Votes, call urgently for attention.* . . .

My Lords would also be glad to learn that the Secretary of State is prepared to adopt the suggestion made by the Committee in paragraph 20, *that the inquiries as to the progress of expenditure should be in writing, and should be placed on record.*

Send copies of paragraphs 11 *to* 20 *to the Admiralty, and say that, although the remarks in paragraphs* 14 *to* 20 *do not arise upon the audit of Naval Expenditure, they nevertheless appear to my Lords to deserve the attention of the Admiralty in their general bearing on the manner in which the progress of expenditure during the year should be watched in the great spending Departments.*

Treasury Minute, 13 *November* 1884.—*My Lords are glad to learn that the suggestion made by the Public Accounts Committee of* 1883, *in paragraph* 20 *of their First Report, that inquiries as to the progress of expenditure should be in writing, and should be placed on record, has been adopted.*

SECOND REPORT, 1883. H.C. 187.

Treasury Minute, 26 November 1883.

GENERAL REPORT.

Question of Extension of New System of dealing with Extra Receipts.

2. Your Committee desire to call attention to a correspondence which has passed between the Treasury and the Comptroller and Auditor General upon the question of extending to the Civil Service Votes the system lately adopted in respect of the application of Extra Receipts in the case of the Naval and Military Services. Your Committee approve of the step taken by the Comptroller and Auditor General in adopting this system to the Vote for the Exchequer and Audit Department; and they concur generally in his view that one uniform principle should, as far as possible be observed throughout the Services. They will be glad, therefore, to see a gradual extension of the system, as occasion offers, to those Civil Service Votes which most readily admit of it. At the same time they do not deny the force of the observations in the Treasury Letter of 19 December 1882, nor do they desire in any way unduly to hasten the action of the Treasury.

My Lords observe that the Committee concur generally in the view of the Comptroller and Auditor General that one uniform principle should, as far as possible, be observed throughout the Services, but that at the same time they do not wish unduly to hasten the action of the Treasury. The Appropriation Accounts of the great Departments of expenditure for 1882–83, *shortly to be sent to the Comptroller and Auditor General, will show how the War Office and Admiralty have applied the new system and the Comptroller and Auditor General will doubtless report how far the main condition on which the Committee assented to the change has been satisfied, viz., that the Departments are not to dispose of larger sums than Parliament intended to place at their disposal. It may be found that some further limitation or some modification of the regulations is desirable, and my Lords prefer not to extend the change during the short period which will elapse before the results for the year* 1882–83 *have been ascertained. At the same time they note and concur in the view of the Committee that one uniform principle of dealing with extra receipts should, as far as possible, be observed throughout the Services.*

Objection of Committee to Partial Alteration.

3. In the Treasury Minute on the Report of the Committee of Public Accounts 1882, the Lords Commissioners have drawn up a clear statement of their views as to the proper mode of dealing with Extra Receipts, and your Committee think it only due to their Lordships that they should state how far, as at present advised, they assent to those views.

4. Your Committee are not disposed to take exception to the two Rules as stated in paragraphs (1) and (2), pages 25 and 26 [*see* p. 136]. With respect to the different points raised in paragraph (4) your Committee would observe as follows:—

(*a*) Your Committee do not desire, nor do they gather that the Committee of Public Accounts, 1882, desired, to "postpone indefinitely admitted improvements of practice," but they object to have the existing practice partially altered because inconvenience

may arise from it in special cases. They think that before any change is made, it should be shown to affect a considerable class of Extra Receipts, and to be, therefore, of substantial importance. With this reservation, your Committee concur in the conclusion arrived at by the Treasury as stated in page 27.*

(*b*) Your Committee are of opinion that any decision should be very carefully watched which has for effect to place at the disposal of a Department a larger sum than Parliament granted to it; and they note with satisfaction that their Lordships " will be guided " within reasonable limits by that which they understand to be " the wish of the Committee."

(c) Upon the question as to the proper mode of dealing with certain fines and penalties, the Committee of Public Accounts, 1882, considered that these sums " fell within the definition of " Extra Receipts adopted by the Treasury in a Minute of 27 June " 1881, as moneys incidently realized or recovered by Depart- " ments of the State in the process of conducting services charged " on Imperial funds." Your Committee now learn that the Treasury dissent from this construction put upon their own Minute; and this being the case, your Committee, though not free from doubt upon the point, are not prepared any further to contest the principle laid down by the Treasury that fines and penalties abated from the full contract price, and received, therefore, before the final settlement of that price, are not to be treated as extra receipts.

My Lords read with satisfaction the remarks of the Committee upon the general principle of dealing with extra receipts, which they described in the Treasury Minute upon the Report of the Public Accounts Committee for 1882. *They believe that there is now substantial agreement between the Committee and the Treasury. My Lords note the objection of the Committee to alterations of the present system, which do not affect a considerable class of extra receipts, and so fail to compensate the inconvenience of partial change by substantial advances towards uniformity; and they also note the now repeated opinion of the Committee that any decision should be very carefully watched of which the effect is to place at the disposal of the Department a larger sum than Parliament granted to it.*

My Lords will bear these recorded wishes of the Committee carefully in mind.

Pecuniary Responsibility of Heads of Departments.

5. Your Committee desire further to express their entire concurrence in the circular and instructions sent out by the Treasury to the Departments, respecting the pecuniary responsibility which is incurred by Heads of Departments and Accounting Officers in ordering expenditure not permitted by superior authority. The action of the Treasury in enforcing such liability will, your Committee feel assured, be supported by Public Accounts Committees.†

My Lords are glad to find that the Committee express their entire concurrence in the draft circular and instructions prepared by the Treasury respecting the pecuniary responsibility incurred by those who order unauthorized expenditure. By an inadvertence this circular had not been despatched at the time when it came under notice of the Committee; but it has since been issued, with the addition of this expression of the opinion of the Committee thereon.

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* *See* page 139. † *See* page 131.

CIVIL SERVICES.

Special Subheads. Classification of Charges.

6. (CLASS I., VOTE 4.—HOUSES OF PARLIAMENT.)—Your Committee are disposed to agree with the Comptroller and Auditor General that the legal expenses placed under a special subhead in this Vote, and under a special subhead in Vote 5, would have been more correctly charged against Law Charges, Class III., Vote 1. The other charge, under Vote 11, which was referred to in the evidence, appears to your Committee to be on a somewhat different footing, and to be directly connected with the purchase and other expenses of the Courts of Justice.

7. (VOTE 8.—COUNTY COURT BUILDINGS.)—Your Committee question whether the charge for compensation paid for damage caused by the fall of a County Court chimney can properly be brought within the heading of this Vote, which only covers the case of sums granted "for "New Buildings for County Courts, Maintenance and Repair of Courts, "Supply of Furniture, Fuel, &c., and for charges attendant thereon," and the creation of a new subhead would not cure this objection. But while they are not prepared to throw the charge on this occasion out of the Vote, they are disposed to think that it should have been charged to "Civil Contingencies." They may add that it seems to them very desirable that attention should be drawn by the Comptroller and Auditor General to these special subheads, under which new charges, not previously voted or sanctioned by Parliament, are made.

33. (CLASS III., VOTE 33.—PRISONS, IRELAND.)—Your Committee have already expressed their opinion as to the expediency of having attention called to new subheads of any special character, and especially in cases where doubt may be entertained whether the charge strictly falls within the heading of the Vote. Unless attention is called to these matters, the expenditure may very often escape notice, and the opportunity will be lost to Parliament of forming an opinion as to whether it was necessary to expend this money before a Vote could be taken for it, or whether the expenditure could have been postponed.

My Lords agree with the Committee (paragraphs 6 and 7) that the Comptroller and Auditor General should draw attention to special or new subheads opened after the passing of the Vote. The Treasury and the Department may judge rightly that the expenditure could not be avoided, but the Committee should review each instance of the exercise of such extraordinary power, and if necessary, report it to Parliament.

My Lords note the opinion of the Committee, that certain legal expenses charged under special subheads in the Vote for Houses of Parliament Buildings, "Taxed Costs in re Governors of Grey Coat Hospital," and the Vote for Public Buildings, "Taxed Costs, Metropolitan Improvements," should have been charged to the Law Charges Vote No. 1, in Class 3; and also the doubt expressed by the Committee whether compensation for damage caused by the fall of a county court chimney comes within the heading of the Vote for New Buildings, Maintenance and Repair of County Courts. In the Classification of expenditure under the various Votes of Parliament, items are sure to occur which may not improperly be charged to one or other of two Votes. It appears to my Lords that the Comptroller and Auditor General prefers to charge such items under their technical description, while my Lords prefer to class them with the service to which they belong. A fair case may be made out for either method. Land is bought for the Houses of Parliament, the purchase involves some legal expense. It cannot be

denied that this is a law charge. On the other hand, it is clearly part of the charge for the site of the Houses of Parliament. My Lords incline to the latter method of charge as the most correct, but apart from that reason, which may be matter of opinion, they have also a practical reason for their view. Parliament constantly requires minute information of the cost of different services. Persons not conversant with the compilation of such returns do not appreciate the difficulty of giving them correctly, and the importance of recording facts in such a manner that they will not escape attention. Several years hence, a clerk compiling a return of the cost of the Houses of Parliament would certainly not think of searching the Law Vote for part of his information. The charges in this case are insignificant, but the principle will apply to larger cases, and my Lords would submit that the difference between their view and that of the Comptroller and Auditor General is not very material, and so far as that is so, that they should be permitted to record facts in the manner which enables them to answer most correctly questions addressed to them by Parliament. They would be glad if the Committee would consider the question further from this point of view. My Lords note that care should be taken to ascertain that the heading of the Vote will cover expenditure proposed to be charged thereto.

CLASS II., VOTE 25.—STATIONERY AND PRINTING.

Audit of Store Accounts.

12. Your Committee trust that the Treasury will soon be able to propose to the Comptroller and Auditor General some satisfactory arrangement by which a more complete examination of the Store Accounts of this Department may be secured. The Committee of Public Accounts in their Report last year pointed out the importance, as affecting other Departments, of establishing a complete system of audit with respect to this and other comparatively small Departments.

My Lords have received a Report from the Treasury Officers of Accounts (copy of which is annexed to this Minute) in regard to the audit of the Store Accounts of the Stationery Office. They fully concur in the views expressed in the Report as to the very great importance of the larger question of a general audit of Store Accounts, which has been from time to time adverted to, and also as to the inexpediency, in the absence of complete information, of taking any action which might prejudge that question, or lay down a line of policy which, upon a fuller consideration of the circumstances, might be found to be untenable or unwise.

My Lords therefore accept the suggestion in the last paragraph of the Report. They will deal with the case of the Stationery Office Store Accounts by a special and temporary arrangement, and in view of the usefulness of the larger experience in the audit of accounts of this nature which may thus be gained, they will authorize the Comptroller and Auditor General to undertake a detailed examination of the issues of Stationery Office Stores from 1 April next. .. . .*

Before proceeding to give their full consideration to the important question as to the expediency of establishing a general audit of store accounts by the Comptroller and Auditor General, my Lords will ascertain from the several Departments concerned in the custody and disposal of stores what regulations have been laid down for securing within the Departments a check upon the issues of stores, and how far such regulations appear to be effective for the purpose.

* This proposal was afterwards modified, and a test audit only was applied. See Civil Services Appropriation Accounts 1883–84, p. 154.

Appendix to Treasury Minute.

May it please your Lordships, Treasury, 31 October 1883.

1. In a letter of 6 May 1881, the Comptroller and Auditor General brought under the notice of the Treasury the subject of the examination given by him to the Store Accounts of the Stationery Office, and the matter has subsequently received the attention of the Public Accounts Committee in connexion with a general question as to the expediency of establishing an audit of the whole of the Store Accounts of the Public Departments independent of the examination which they receive in those Departments.

2. It is explained in the Audit Office letter that the audit by that Department, so far as it relates to the store transactions recorded in the Stationery Office books, only ascertains that the supplies which are purchased by the Stationery Office are duly brought on charge in the Store Ledgers, and is only such "as is requisite to justify the cash accounts"; and it is suggested for consideration whether this examination is of itself of any practical value.

3. The Treasury Regulations which prescribe the mode and extent of the examination to be applied to these accounts were based upon those suggested by the Commissioners of Audit in their Report to the Treasury of 19 December 1856. The Commissioners stated that the course they proposed was as follows:—

"To depute one of our officers to attend occasionally at the "Stationery Office, in order that he may be enabled to report to us "whether the books are properly kept, whether the entries are "regularly made, and whether the [departmental] examination takes "place within the period fixed for that purpose; to ascertain that the "whole of the cash purchases have been duly brought to account, to "test some of the original entries, and compare them with the books, "and finally to compare the account rendered to this office with the "books from which it is made up. In other words, so far to inspect "the account that we may be satisfied that the books have been cor-"rectly kept and the examination properly conducted, reserving to "ourselves the power to undertake a more detailed examination "should it at any time appear to us desirable to do so."

4. The examination thus proposed, and which the Treasury sanctioned, seems to have been less restricted than that which from the present description is now applied to these accounts. It appears, indeed, to have been at that time intended that the *actual issues* of the stores should be to some extent tested, in addition to the verification of the whole of the charge side of the Store Ledgers. The Comptroller and Auditor General was authorized by the Treasury to continue the system of audit of these accounts which had been previously in force under the Commissioners of Audit, and we are not aware that the Treasury has subsequently been asked to approve of a modification of practice; but we presume that some reasons have led to a change or that the extent of the test portion of the audit has been considered to be too slight to have any appreciable value.

5. Had the question which has now been raised stood alone, the decision upon it would have had comparatively small importance. We should have thought it sufficient to have suggested some extension of the test of the discharge side of the store books. The smaller question, however, as before stated, has become merged in a much wider and more important question, the decision upon which, as it seems to us, will demand the most serious consideration.

6. As opportunity has occurred, we have made inquiries with regard to the extent and strictness of the check upon stores which is exercised within the Departments themselves. Although these inquiries have been by no means complete, they lead us to the conclusion that in some cases a good deal remains to be done within the Departments before the basis for any external audit whatever can be said to exist. It will therefore be necessary, in the first

instance, that the Treasury should receive precise information from the various Departments having charge of stores as to the regulations in force within the Departments for ensuring a check upon the disposal of the stores. It is obviously essential to such a check that a systematic periodical verification should take place of the existence in the storehouses of the balances remaining on charge in the Store Ledgers.

7. As an important instance in which this preliminary condition is not fulfilled, it appears (as your Lordships have learned by correspondence now under consideration) that while, as we understand, regulations exist for securing an effective check upon all issues of Military Stores from the Royal Arsenal at Woolwich after the stores have passed from the Arsenal to other Military Depots, no provision has ever been made, as regards the enormous mass of stores and material within the Arsenal itself, for a regular comparison between the actual stock and that shown on the Store Ledgers, and it is suggestive to remark here that the expense incidental to this preliminary step in this particular instance is estimated at a first cost of about 4,200*l.*, with a subsequent permanent annual charge of about 1,050*l.*

8. An Audit of Store Accounts by the Comptroller and Auditor General must, we presume, take one of the following forms:—

(*a*) A detailed audit (as in the case of the Cash Accounts of the Civil Departments) by the transmission to the Audit Office of accounts and vouchers.

(*b*) A detailed audit conducted *locally.*

(*c*) A local test audit.

The documents corresponding in Store Accounts with "vouchers" in cash accounts would be the actual requisitions and receipts of the various officers duly authorized to draw stores for consumption or use. These documents are out of all proportion to the vouchers which support cash accounts, inasmuch as a single cash payment to a contractor will represent an infinite number of issues in detail. Thus, taking the simple case of one of the prisons (of which there are more than a hundred in the United Kingdom, each of them a store department), a single cash payment covers the supplies of meat for a whole quarter. But the vouchers for the issues are the requisitions or statements which are prepared *daily*, of the numbers and classes of prisoners to be victualled, with elaborately exact calculations of the quantities represented by the particular scales of diet fixed for the several classes; these again varying with the particular day of the week.

9. Further, it may be noted, as indicating the area to be covered, that whereas a money payment is vouched and disposed of once for all, in Store Accounts very many articles are brought on charge successively in the accounts of several independent officers, as in the case of issues from the Dockyards to the Fleet or to Expense Stores within the Dockyards, or from the Arsenal to the Dockyards, or from one Dockyard or Ship to another; also when Military Stores are issued (1) from the Arsenal or the manufactory to other Military Depots; (2) from the Depots to the Expense Stores of the subdistricts; and (3) from the Expense Stores to the Troops. Again, when the process is reversed and Stores are returned to the Dockyards or Arsenal by similar stages.

10. Under the first above-named method of audit many tons' weight of paper would be annually transmitted to the Audit Office, the immense details of which must be scheduled and summarized in the accompanying accounts. Such a scheme would, of course, involve a large increase of clerical work in the Departments apart from the additional staff in the Audit Office.

11. A local detailed audit by the Comptroller and Auditor General would avoid the expense contingent upon the preparation

and transmission of accounts, but would probably entail the doubling of the staff of the Comptroller and Auditor General, and this additional staff must be scattered in all parts of the United Kingdom.

12. Assuming that these methods are practically out of the question, there remains a test audit exercised locally. The cost would, of course, be far less in this case, but so immense are the details to be scrutinized that a test audit, as ordinarily understood, that is, a continuous examination in each store branch of an appreciable portion of the accounts, would still demand a very material increase to the staff of the Comptroller and Auditor General's Department.

It is obviously desirable in the interest of economy to reduce within the narrowest limits the necessity for an audit of this kind in addition to the examination for which the regulations of the Department provide. We think, therefore, that it should be the object of the Treasury to lay down such regulations as are calculated to secure an entirely effective check in the Departments upon the use and consumption of Stores. When that is accomplished your Lordships and the Committee of Public Accounts might consider whether a sufficient guarantee that those regulations are duly enforced might not be effected by a comparatively inexpensive system of independent inspection from time to time.

13. We have thought it right to submit these observations in order to show the extremely wide range of the subject, and the necessity for the fullest inquiry and most careful consideration, before the Treasury is committed to any scheme of which the ultimate cost has not been well weighed against the intrinsic value of the object to be attained by it, and also to bring before your Lordships the desirability of ascertaining without delay how far the check in the various Departments upon the consumption of Stores is at present defective, so that the Committee of Public Accounts may be satisfied that your Lordships, while deprecating an indiscriminate application of the independent audit to Store Accounts, are earnestly working to reform the departmental check upon these accounts, and that it may expect, within reasonable time, to learn the result of such reform.

When that point is reached, the question of independent audit will be ripe for decision.

14. Reverting now to the case of the Stationery Office Store Accounts, we beg leave to state that we have conferred with the Assistant Comptroller and Auditor, who has suggested that in this particular instance, which is an exceptionally simple one, and having regard to the small cost involved, and to the usefulness of the experience which will be gained by the officers employed upon the duty, it would be desirable that these accounts should be subjected to a complete local audit in detail. We agree in this view, subject to our opinion that the arrangement should be understood to be wholly experimental and liable to reconsideration hereafter; and we accordingly beg leave to recommend that the Comptroller and Auditor General be authorized to undertake this audit from 1 April next. . . .

R. E. Welby,
Richd. Mills.

CLASS III., VOTE 1.—LAW CHARGES, ENGLAND.

Supplementary Estimates taken Net.

13. When a Supplementary Estimate is taken net, it appears desirable that some indication of the fact should be given upon the face of the Estimate. This point has also arisen in respect of an Army Vote.

My Lords agree with the Committee that when a Supplementary Estimate is taken net, the fact should be recorded upon the face of the Estimate.

VOTE 21.—COURTS OF LAW AND JUSTICE, SCOTLAND.

Extra Receipts taken in Aid.

23. The Comptroller and Auditor General has called attention to a case in which, under Subhead E. of this Vote, a distinct abatement of £230, as the probable amount to be recovered as Law Charges, was made from the gross Estimate. In fact, however, a sum of £343 17*s.* 1*d.* was recovered, and the excess was applied to the credit of the Vote, instead of being paid into the Exchequer as an Extra Receipt. Your Committee consider that the proviso as to paying into the Exchequer amounts above the estimated amount of Appropriations in Aid, applies strictly to Army and Navy Services; but they recommend that, in the comparatively few cases in the Civil Service in which Extra Receipts are allowed to be taken in diminution of the Vote, the same course should be adopted in the future as is adopted under the proviso in Army and Navy Services. This is the more important, because, as the Comptroller and Auditor General points out in his General Report, the exceptions to the main rule of the Civil Service in respect of Extra Receipts tend to become more numerous.

My Lords note the recommendation of the Committee that, in the few cases in which Extra Receipts on Civil Service Votes are allowed to be taken in diminution of expenditure, any amount realized above the estimated amount of appropriation in aid should be surrendered to the Exchequer, so that the Department concerned may not dispose of a larger sum than Parliament intended, and they will cause the recommendation to be adopted.

VOTE 30.—COUNTY COURT OFFICERS, &C., IRELAND.

Grants exceeding limits of special Acts.

29. Certain salaries have been granted and paid to magistrates in Ireland, in excess of the salaries fixed by the Act 37 & 38 Vict. c. 23. A Supplemental Estimate was taken for this excess, but the attention of Parliament was not called to the special circumstances of the excess, either by a note in that Estimate or otherwise. Your Committee are of opinion that in a case like this, a special note should have been inserted in the Supplemental Estimate.

My Lords agree with the Committee that a special note should have been inserted in the Supplemental Estimate granting salaries to magistrates in excess of the limits fixed by 37 & 38 Vict. c. 23, and that the attention of Parliament should have been directed to such excess.

30. A question has been raised by the Comptroller and Auditor General as to the validity of these excess payments; first, if made before the granting of the Supplemental Vote, and secondly, if made after the passing of the Appropriation Act. As to the first point, your Committee consider that payments of this kind, if made before the granting of the Supplemental Estimate, are invalid, though the subsequent granting of the Supplemental Vote and the passing of the Appropriation Act would probably be held to have a retrospective effect, and to cure such invalidity. Your Committee must, however, express their regret that owing to some misapprehension on the part of the Pay Office in Ireland, the payments in the present case were made before the sanction of Parliament had been obtained. Such a proceeding is clearly wrong, and would necessarily tend to hamper Parliament in their decision as to the expediency of such payments. As to the second point, your Committee are not prepared to say that such payments in excess of a limit imposed by one Act are invalid if made after a Vote in Parliament,

and the passing of the Appropriation Act. It is not perhaps quite correct to say that the Appropriation Act "overrides the limits imposed by the preceding Act." It only admits that special reasons have arisen which justify an addition to those limits. Should those reasons cease, the limits imposed by the former Act would remain unaffected by the temporary addition to those limits.

My Lords think also that the remarks in paragraph 30, *as to the validity of such payments* (1) *before the Estimate was taken, and* (2) *before the passing of the Appropriation Act, are just, and they will be guided by them.* (See also 2. 1885. 41–2, and T.M. at pp. 167–8.)

33. (VOTE 33.—PRISONS, IRELAND. *Special Subheads.*) *See* p. 143.

CLASS V., VOTE 2.—CONSULAR SERVICE.

Advances; Expenditure on behalf of Private Persons.

36. Your Committee . . . agree in the suggestion made by the Comptroller and Auditor General that in future some guarantee should be taken that any reasonable expenses necessarily incurred would be reimbursed by the person for whom, or on whose recommendation, the service is undertaken.

My Lords would be glad to hear that the Secretary of State has laid down a rule which will prevent the expenditure of public money for the convenience of private persons, unless a guarantee for the repayment of such expenditure shall have been first obtained.

ARMY APPROPRIATION ACCOUNT.

Audit of Non-voted Accounts.

53. . . . With respect to the test by the Comptroller and Auditor General of certain non-voted Accounts which appear in the War Office books, your Committee learn that he will, at the request of the Treasury, undertake to test each year, in a limited degree, the correctness of the entries under two of the non-voted Heads of Account. The exact nature of the test will be found by reference to the correspondence at page 217 of his Report.

EXTRACT from Exchequer and Audit Department letter of 28 December 1882 to Treasury (Army Appropriation Account, 1881–82, p. 217).—It appears to the Comptroller and Auditor General probable that a proposal to apply every year a slight test examination to one considerable non-voted War Office Account, as well as to one or two of the smaller accounts, will be considered by their Lordships an adequate execution of their wishes regarding an independent inquiry into the correctness of these Accounts.

Until the Comptroller and Auditor General is further informed as to the nature of these Accounts and the periods for which they run, he finds it difficult to lay down positive limits within which the test examination of each Account should be confined.

Bearing in view, however, the clearly expressed wish of their Lordships, that the examination of this Department should be of a very slight character, the Comptroller and Auditor General thinks that this test should not be applied, at least in the first instance, to more than about a fiftieth of the transactions comprised in each Account. In the event of experience showing that a more extended investigation into any particular Account is permanently desirable, the Comptroller and Auditor General will consider it his duty to communicate the grounds on which he has formed this opinion to their Lordships.

EXTRACT from T.L. 8 January 1883, in reply.—My Lords entirely concur in the proposals.

Expenditure in Colonies, &c.

55. Section 7.—Your Committee observe that in accordance with the undertaking given by the Department to the Committee of Public Accounts, 1882, an Explanatory Paper, No. 17, has for the first time been furnished, showing the expenditure and value of stores supplied for Military purposes in the Colonies and Foreign Military Stations.

My Lords presume that this Paper will henceforth be printed annually with the Appropriation Account.

Date of Charge—Army Pay.

58. With respect to the doubts raised by the Comptroller and Auditor General in his reports upon the Army Accounts, 1879–80 and 1880–81, your Committee may observe that the Law Officers have reported that the system in force fulfils the requirements of the 24th section of the "Exchequer and Audit Departments Act, 1866"; and that taking into regard the alterations in the forms of certificates and declarations by the Paymaster (alterations which, it is to be observed, have been made since the Comptroller and Auditor General's Report of 1882) the requirements of the 27th section of that Act are also met. The Comptroller and Auditor General states that this opinion appears to him "to cover an entirely new system of public accounting, in which "credits may take the place of actual payments." Your Committee, however, do not understand the Law Officers to lay down any such general principle, but to have confined their opinion to the particular case, and to the special facts laid before them. Your Committee would strongly deprecate any general change in the system of public accounting in the direction indicated by the Comptroller and Auditor General as the possible result of the opinion of the Law Officers.

The Committee have considered the opinion given by the Law Officers to the effect that sums credited in the Paymaster's account in respect of soldiers' pay are sums which have actually come in course of payment within the period of the Appropriation Account, and that the forms of certificate and declaration by the Paymaster as altered are vouchers in accordance with the requirements of Section 27 of the Exchequer and Audit Act, and they hold that opinion to be confined to the special case laid before them; that it was not intended, as the Comptroller and Auditor General apprehends, to cover an entirely new system of public accounting in which credit may take the place of actual payment. They strongly deprecate any general change in that direction as the possible results of the Law Officers' opinion. My Lords entirely agree in this view, which will have, they are sure, the assent of the Secretary of State.

Note.—Pay of soldiers due but not paid is now excluded from the Army Appropriation Account. *See* Treasury Letter, 19 February 1891, at p. 248.

Inadequate Vouchers.

60. Section 14, Vote 9.—Your Committee concur with the Comptroller and Auditor General in thinking that whenever amounts which are unsupported by such vouchers as would in the ordinary course be produced, are charged against a Vote, the peculiar character of the charge should be shown clearly in the account. In this view the Treasury concur, and the only question is in what way this can be best done. Your Committee are of opinion that the object can be best

attained by a note to the Appropriation Account, as suggested by the Treasury.

My Lords take it as agreed that the peculiar character of sums charged against a Vote, but not supported by ordinary vouchers, is to be clearly explained by a note to the Appropriation Account.

Compensation for Damage; Fruitless Payments.

61. Section 15, Vote 10, Subhead H., Transport at Home.—There is, no doubt, considerable force in the objection raised by the Comptroller and Auditor General with respect to charging to this Vote a sum paid for compensation, and also in his suggestion that these non-productive Services should be classed together in a schedule, as " Irrecoverable Losses " are classed together with respect to various Votes; but, upon the whole, your Committee are disposed to concur in the opinion expressed by the Treasury in their letter of 14 June 1882 to the War Office, as to the procedure to be adopted in dealing with charges of this description.

The Secretary of State will see that the Committee concur in the Treasury decision of 14 *June* 1882, *that compensation for damages should not form the subject of a special subhead, that cases extraordinary in character or amount should be reported to this Board, and that a note should be made of such cases in the Appropriation Account.*

Pay Tickets.

64. Section 20, Vote 12.—With one exception, namely, whether personal receipts should not be required, the Comptroller and Auditor General is satisfied with the system adopted for paying and accounting for wages in the Manufacturing Departments. He has suggested a remedy, apparently a very simple one, that the present pay tickets might easily be converted into satisfactory personal receipts, and unless some step of this kind be taken, he holds that the requirements of the Exchequer and Audit Departments Act, 1866, cannot be satisfied, as there is no sufficient " voucher or proof of payment " within the meaning of the Act. The Accountant General of the War Office states that the Heads of the Manufacturing Departments have shown strong reasons why the plan suggested should not be carried out. These reasons have not been brought before your Committee, and they are therefore unable to judge of their validity or otherwise, but they gather from the evidence that the Accountant General himself does not see why effect should not be given to the suggestion of the Comptroller and Auditor General. If, however, the War Department, upon full consideration of the question, are of opinion that personal receipts cannot be given, either in the manner suggested by the Comptroller and Auditor General, or in some other manner, and if, upon reference to the Law Officers, they report that the present system does not meet the requirements of the Act, your Committee consider that it would be desirable to meet the difficulty by passing an Act to regularize the mode of payment.

T.M. 13 *November* 1884, *on Second Report* 1884.—*With regard to the question raised by the Comptroller and Auditor General upon the accounts of* 1881–82 *as to the sufficiency of the proof of payment under the existing method of paying wages in the naval and military yards, a clause was inserted in the " Revenue Act "* (47 *&* 48 Vict. c. 62, s. 14) *of last Session, giving power to the Treasury to approve regulations for making and witnessing payments for Army and Navy Services, and defining a " voucher or proof of payment " in such cases for the purposes of the Exchequer and Audit Act,* 1866. *Regulations for these payments should accordingly be prepared and submitted for the approval of this Board.*

Postponement of Works.

66. Section 23, Vote 13.—The question of the postponement of works with a view to supply the means for undertaking other works, which may be absolutely necessary, but which have not been sanctioned by Parliament, has been more than once brought under the notice of Committees on Public Accounts, and the Committee in 1879 reported that " there is much force in the observations as to the liability to abuse " of the power of transfer when exercised in the application of surpluses " obtained by the postponement of works to meet unforeseen expenditure." [*See* 2. 1879. 79, *at p.* 89.] Without questioning the action of the War Department in such cases, or the action of the Treasury, who would, as your Committee are informed, inquire into any cases where the proposed postponement was at all of a large character, your Committee recommend that wherever works have been purposely postponed for the purpose of providing funds to meet expenditure on works not previously sanctioned by Parliament, a note should be inserted in the Accounts showing what works have been so postponed and the works for which such postponement has been made.

My Lords see no objection to the suggestion of the Committee that a note should be inserted in the Appropriation Account, showing works purposely postponed in order to provide funds for works not sanctioned by Parliament.

NAVY APPROPRIATION ACCOUNT.

Date of Charge; Pay due to deceased Officers and Men.

87. Section 7, Vote 1.—The Admiralty practice of charging the pay due to deceased officers and men against the Wages Vote, and crediting the Ledger Account of Wages and Effects of deceased seamen before payment of the sums, has, in accordance with the views of the Treasury and of the Comptroller and Auditor General, been changed, and for the future sums due under this head will be posted to a Suspense Account, until payment is made to the representatives of the deceased officers and men.

Note.—A separate Register of Wages due to deceased officers and men is now kept. If the amounts are unclaimed for 6½ years, they are then charged to the Vote and credited to Greenwich Hospital Account. (See note at p. 209.)

Pay forfeited by Desertion.

88. Section 8.—The Admiralty have also assented to the opinion expressed by the Treasury and the Comptroller and Auditor General, that wages of men forfeited by desertion should not become a charge against the Wages Vote.

Pay Tickets.

91. Section 11, Vote 6.—The Comptroller and Auditor General also calls attention to the absence of personal receipts in support of the wages paid. He suggests, as he did in the case of the Army Department, that pay tickets should be used having the word " Received " upon them, which should be signed by the workmen receiving the pay. The Admiralty object to this change in their system; and if it is upon further consideration found to be impracticable on the ground of expense, or

delay, or otherwise, your Committee recommend that the course be followed which was suggested in paragraph 64. Upon this point, your Committee may refer to the provisions of an Act of 1832. [Admiralty Act, 2 & 3 Will. 4. c. 40. s. 31, repealed in 1865.]

See T.M. on para. 64 above.

Loss of Stores.

111. Section 39.—Your Committee are of opinion that where any large quantities of stores or provisions are lost, notes should be appended to the Appropriation Account showing the values of such stores, &c., and the amounts recovered in respect of such losses.

My Lords agree with the Committee that when stores to any amount are lost, a note should be appended to the Appropriation Account, showing the value lost and the amount recovered.

THIRD REPORT, 1883. H.C. 233.

Treasury Minute, 27 November 1883.

CIVIL SERVICES.

CLASS IV., VOTE 1.—PUBLIC EDUCATION, ENGLAND AND WALES.

Abandonment of Claims.

4. The Comptroller and Auditor General does not admit that under the present practice the Treasury have the power which they claim, of sanctioning, in the absence of express statutory prohibition, the abandonment of any claim of the Exchequer to payment. There can, however, be no doubt that the Treasury have for a long time exercised this power, although of late years a general rule has obtained that for all remissions of loans the assent of Parliament should be obtained. Numerous cases must arise in practice, where such a dispensing power is required, in order to meet cases of individual hardship, to prevent injurious friction in the working of important departments, and to save waste of public money in prosecuting for small amounts, which are often irrecoverable; nor must it be overlooked that to require the sanction of Parliament for a multitude of small details, may often tend to weaken, rather than strengthen, its effective supervision over matters of more importance. Your Committee, therefore, do not for the present go further than to recommend that the plan suggested by the Comptroller and Auditor General should be carefully considered by the Treasury, with a view to seeing whether such an application to Parliament, either for its information or for its subsequent sanction, can, with advantage, be extended to other classes of cases than remissions of loans.

The remarks of the Committee on the general subject of abandonment of such claims appear to my Lords very just, and they note their recommendation, that the plan suggested by the Comptroller and Auditor General should be carefully considered by the Treasury with a view to seeing whether a statement to Parliament, either for its information or for its subsequent sanction, can, with advantage, be extended to other classes of cases than remissions of loans. Upon this my Lords would remark, that in their opinion any abandonment of a claim due to the public which involves an important principle, or an amount of magnitude, may properly be made the subject of ratification by Parliament, as in the case of the remission of a claim against India, for which the sanction of Parliament was formally obtained in 1882. They would be unwilling, however, to lay down a general rule which

*would cover a great number of small remissions of no significance in principle or amount. Such cases may properly, it seems to them, be left to the Treasury to decide. The Comptroller and Auditor General will doubtless call attention to any cases which in his opinion deserve notice. The Committee may therefore rely upon receiving warning, if the Treasury exercise their discretion in a questionable or improper manner. My Lords would see no objection to laying before Parliament a list of all claims of which they have, during the year, authorized the abandonment.**

VOTE 13.—PUBLIC EDUCATION, IRELAND.

Discretionary Powers in application of Rules.

18. He has, however, called attention to a subject of considerable importance, namely, the discretionary power claimed by the Commissioners of National Education in the application of their printed rules and regulations. A correspondence on this subject will be found in the Report of the Comptroller and Auditor General, and a further Memorandum, prepared by Sir Patrick Keenan, will be found in the Appendix to the Second Report of your Committee. Your Committee desire to express their entire concurrence in the terms and reasoning of the Treasury Letter of 11 January 1883 to the Commissioners, and they are glad to learn from the reply of Sir P. Keenan that "the Commissioners are revising their rules so as to cover, as far as practicable, the "practices which the Comptroller and Auditor General seems disposed "to question." Your Committee consider that the rules, financial as well as educational, should be carefully adhered to, and where in practice it is found that some discretion is necessary in the application of a rule, such discretion should be provided for in terms with respect to that rule.

With regard to the general question raised by the Committee in paragraph 18, *my Lords have already, in a letter dated* 19 *October, expressed to you their views, which are in entire concordance with those of the Committee.*

SECOND REPORT, 1884. H.C. 237.

Treasury Minute, 13 *November* 1884.

CIVIL SERVICES.

CLASS III., VOTE 16.—CONVICT ESTABLISHMENTS IN ENGLAND AND THE COLONIES.

Manufacturing Accounts; Test Audit.

21. The Departmental Committee, which, as appears from the Second Report of the Public Accounts Committee, 1883, paragraph 18, (Question 529), was appointed to consider the questions connected with the sale of manufactured articles and receipts from prison labour, has not yet reported. It is to be hoped that there will be no further delay in the matter.

My Lords have received a Report from the gentlemen nominated on behalf of the Treasury and the Prisons Department to confer upon the subject of certain questions raised in the Reports of the Comptroller and Auditor General upon the Accounts of the several Prison Votes. The

* See further P.A.C. 2. 1897. 18, 19. at p. 406.

gentlemen named for this purpose are members of a Departmental Committee, under whose immediate advice and supervision a complete and uniform system of record and account of cash and store transactions and manufacturing operations has been established in the whole of the local prisons in England, and they are, therefore, especially qualified to advise upon the subjects referred to them.

*They state that, as a result of the revision of the Accounts just alluded to, the Prison Departments in England will now be able to prepare annual abstract statements of the whole of the transactions of the manufacturing or productive labour department of the English convict prisons and local prisons; and they suggest that such annual statements should in future be transmitted by the respective Departments to the Comptroller and Auditor General to be subjected by him to a general test, in the exercise of which he will be enabled to report to Parliament whether the departmental regulations appear to provide proper security against irregularity, and whether such regulations are duly enforced. They contemplate the adoption of a similar course in the cases of the Scotch and Irish Prison Boards, if, or so soon as a technically efficient system of book-keeping is in existence, without which no such complete statement of results could be furnished.**

With regard to the proposal that statements of the value of the labour of prisoners employed on prison buildings should be prepared by the Prison Departments and appended to the Appropriation Accounts, by way of indicating the total cost of the buildings, the Report of the Departmental Committee shows very full and careful consideration of the matter.

The Committee point out that the selection of employments for prisoners is determined on grounds of administrative policy and expediency, and is restricted by considerations to which mere pecuniary results are necessarily subordinate. In this way the conditions under which the prisoners are employed upon prison buildings differ so materially from those applicable to contract or free labour, that any statements of figures based upon an assumed value of prisoners' labour, intended to indicate the cost of executing the work under other circumstances, would be subject to qualifications seriously affecting the value of any conclusions which might be drawn from them.

Further, the pay of the free labourer provides for his food and clothing, &c., while in the case of the prison labourer, so much of his assumed earnings as represents those and other items are necessarily charged to separate subheads of the Vote, so that, if for the purpose under notice, the prisoners' labour is valued upon the basis of free labour, a considerable portion of this supposed value either will be practically included twice over in the cost of the Prison Service as a whole, or it must be allowed for by deduction from the statement of the assumed total cost of the buildings, which would seem to have the effect of defeating the object of the suggestion.

It is also represented that, apart from building operations, prisoners are employed in a variety of ways intended or calculated to lessen the cost to the Exchequer of their maintenance; that a number of subheads of the Votes, other than buildings, are therefore affected by the application of prison labour; and that, assuming the usefulness of figures of so hypothetical a nature, they will not be complete unless extended to these other subheads; or, to put the argument in other words, it would be equally useful to show what amount would possibly represent the

* The Committee of 1885 in para. 86 of their Second Report approved of the arrangement for a test audit of the receipts from prison labour.

total cost of the Prison Service under conditions which suppose that the prisoners either were maintained in absolute idleness, or, at least, took no part in any of the interior routine duties and services incidental to their detention; and it is contended that figures of this sort would have no real or practical application. Attention is further directed to the circumstance that prisoners are largely employed in occupations which directly or indirectly affect items of expenditure in the accounts of other Departments, and that the suggestion under notice therefore extends much beyond the area of the Prison Votes.

The conclusion at which the Departmental Committee arrive is, that statements prepared on this principle would not find their proper place in connexion with accounts of actual expenditure, and might indeed be somewhat misleading in that connexion, while, so far as such figures have a bearing upon the policy and results of the administration of the penal law, they are placed before Parliament in the annual reports and statistics of the Prison Boards; and they urge that the true cost of a Service (subject to the receipts realized in connexion with it) is that shown in the accounts of actual expenditure which are strictly verified by audit, whereas the proposed statements would be incapable of similar verification.

My Lords are disposed to concur in the conclusions and recommendations submitted in the Report, a copy of which they append to this Minute, with a view to its being laid before the Public Accounts Committee; but, before taking further action in the matter, they have thought proper to transmit a copy of the Report to the Secretary of State for any observations which he may desire to offer, and they await a reply to this reference.*

VOTE 21.—COURTS OF LAW AND JUSTICE, SCOTLAND.

Extra Receipts taken in aid of Votes.

28. Your Committee are glad to learn that in conformity with the principle now governing "Appropriations in Aid," the Treasury propose that in future, "when Extra Receipts are taken in aid of Votes, "any amount realized above the estimated amount of Appropriations "in Aid should be surrendered to the Exchequer."

Write to the following Departments, which are permitted to take Extra Receipts in aid of Votes:— . . .

I am directed by the Lords Commissioners of Her Majesty's Treasury to inform you that they have decided, in conformity with the principle now governing Appropriations in Aid, that when Extra Receipts are taken in aid of Votes, any amount realized beyond the sum deducted in the Estimate is to be considered as diminishing, pro tanto, *the amount of the grant of Parliament at the disposal of the Department, and will be surrendered to the Exchequer accordingly in the same manner as an ordinary surplus.† I am to request that you will regulate your expenditure in accordance with this decision.*

VOTE 22.—REGISTER HOUSE DEPARTMENT, EDINBURGH.

Losses by Fraud.

29. . . . Your Committee would suggest that whenever a fraud appears upon the Accounts a special report should be made by the Comptroller and Auditor General upon the circumstances, and as to whether proper precautions and guarantees have been taken.

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* *See* Second Report, 1885, Appendix 16 (H.C. 267, p. 186). † In 1924-25 it was decided that receipts in excess of the estimated appropriations in aid should be paid separately to the Exchequer. *See* P.A.C. 2, 1925, 9, at page 687.

The Committee suggest, with reference to a charge for "loss by fraud" in the Account of the Vote for Register House Department, Edinburgh, that whenever a fraud appears on the accounts, a special report should be made by the Comptroller and Auditor General upon the circumstances, and as to whether proper precautions and guarantees have been taken.

The assent of the Treasury is required before any charge can be made in the Appropriation Account of a Department for the purpose of covering losses of public money by accident, default, or fraud; if the charge were made without such assent, the Comptroller and Auditor General would not allow it; and lastly, any charge thus sanctioned is brought distinctly under the notice of Parliament as a special subhead in the Appropriation Accounts. My Lords hold it their duty not to sanction any such charge unless they are satisfied that the amount cannot be recovered, and cannot in the circumstances be justly made a personal charge against the accounting officer or sub-accounting officer of the Department.

In the view of my Lords, the Treasury is primarily responsible to Parliament for the maintenance of financial order and regularity in all the accounting Departments of the State, and in the exercise of this function it is the duty of the Treasury to lay down, or require to be laid down in the various Departments, such regulations as provide for the exercise of proper checks and precautions. It follows that it is also the duty of the Treasury to ascertain, in any case brought to their notice, whether the financial regulations of a Department are inadequate for the purpose of preventing irregularity, or have been neglected or laxly enforced, and inquiries of this nature have repeatedly been made.

My Lords are not sure that they correctly understand the nature of the special report which the Committee contemplate. If the Committee intend that the Comptroller and Auditor General is henceforth to undertake the duty of investigation for which the Treasury now hold themselves responsible, he would undertake an administrative duty which my Lords consider inconsistent with the critical and quasi-judical character of an auditor. The same objection would apply, in their opinion, if he were to re-investigate the case ab initio. *If the Committee contemplate the performance of such adminstrative duties by the Comptroller and Auditor General, my Lords would ask a reconsideration of the subject. If, however, the Committee only intend that the Comptroller and Auditor General should report cases of loss by default or fraud which, in his opinion, deserve the special attention of the Committee, and should criticize the manner in which the Treasury has performed its duty of investigation, my Lords concur with the Committee, and need only add that the reports which are furnished in such cases by the Departments or by officers of the Treasury specially deputed for the purpose, will be always at the disposal of the Comptroller and Auditor General.*

CLASS IV., VOTE 1.—PUBLIC EDUCATION, ENGLAND AND WALES.

Interpretation of Code.

43. The construction of the meaning of the Code by the Education Department is a subject to which the attention of your Committee has been directed, and about which a novel view has been presented. It is claimed on behalf of the Department that a clause in the Code (817 of Code 1883) gives to the Department absolute right of construction, and that under such interpretation any payment will hold good.

44. Your Committee while acknowledging the need of some power of interpretation, hold that the ordinary and natural meaning of the words used in the Code should never be departed from; but that where any expenditure of public money is suggested, not apparently warranted by the Code, the consent of the Treasury should be obtained; and that where a power of relaxation of any rule is, for convenience, reserved to the Department, such power should be given by express language and not by mere implication. And lastly, that the power of interpretation must of necessity be limited by the scope and character of the clause to which it is applied. A power of construction and of interpretation without appeal, and without limit, possessed by a great spending Department that frames its own rules, would render that Department independent of Treasury control, careless of the inspection of the Audit, free from the authority of your Committee, and also of Parliament itself. Such a position is not in accordance with the theory and practice of modern finance. [*See further P.A.C.* 2. 1885. 47 (4) *at p.* 169.]

45. Another point has given rise to some contention. It may be expressed in a question. Does the Code override Statute Law? Practically, the opinion of the Education Department is that it does so; that after it has been on the Table of the House for the required period it has the force of Statute Law, and that the inquiry cannot arise whether it is, or is not, consistent with the existing law. The view of the Comptroller and Auditor General is that the Codes acquire "the "validity of a statutory enactment so long as they were not in "contravention of any Act of Parliament."

46. The Treasury view is as follows:—

> "The contents of the Code of the Education Department rest on no direct Parliamentary sanction, nor is it (so far as my Lords are aware) ever spoken of under that name in any statute, but is only referred to, where necessary, as the Minutes or Regulations of the Education Department for the time being in force. *See* Elementary Education Acts, 1870, Section 97, and 1876, Section 24."

47. Accepting these views, your Committee record their distinct opinion that anything contained in the Education Code contrary to existing Statute Law ought to be held as wholly inoperative and illegal. [*See further P.A.C.* 2. 1885. 47 (1) *at p.* 168.]

In paragraphs 44 *to* 47, *the Committee, in commenting upon the right of interpretation claimed by the Education Department, express their opinion that anything contained in the Education Code contrary to existing statute ought to be held as wholly inoperative and illegal; that, within this general rule, the interpretation of the Code must not depart from the ordinary and natural meaning of the words used in it; that, when expenditure is suggested, apparently not warranted by the Code, the consent of the Treasury should be obtained; that, when a power of relaxation is, for convenience, reserved to the Education Department, such power should be given in express language, and not by implication only; and lastly, that the power of interpretation must be limited by the scope and character of the clause to which it is applicable. My Lords can only say that they entirely concur with the opinion thus expressed by the Committee.*

Recovery of Over-payments.

48. Another matter cannot be left unnoticed. The Education Department asserts that money once paid to a school, either illegally or in excess of the proper payment, cannot and ought not to be

recovered or stopped from future grants. Your Committee admit that in some cases inconvenience or hardship may arise from the recovery of sums improperly paid, and that where managers have acted in good faith their claim for the retention of the money so paid is almost insuperable. They consider therefore that in many, possibly even in most, cases, the error should be condoned; but on the other hand they hold that the power of compelling repayment should exist, and should when necessary be asserted. This seems essential in order to prevent financial carelessness. As there is a direct continuity of School Accounts from year to year, it would be very easy to submit a list of such overpayments to the Treasury and to your Committee, not of necessity for recovery, but in the interest of the Education Department itself, and as a salutary check on its financial arrangements . [*See further P.A.C.* 2. 1885. 47 (5) *at p.* 169.]

My Lords also agree with the Committee that the power of recovering sums paid to school managers, either illegally or in excess of the proper grant should exist, and should, when necessary, be asserted; but, subject to vindication of the principle, they agree also that the power should be exercised with great discretion.

Procedure when Departments do not agree with Committee.

51. The Committee in 1883 reported, in concurrence with the views of the Treasury and of the Comptroller and Auditor General, that, as the law then stood, "the receipts for books in addition to all other receipts from the children should be included in the 9*d.* fee."

52. This report was founded on the suggestion of a Departmental Committee. Yet books are expressly excluded from the 9*d.* limit in the Education Code for 1884.

53. Your Committee consider that if the Education Department thought that this report ought not to be carried out on the grounds of public policy, the alteration in the Code should have been brought specially before the attention of Parliament, particularly as it involves an expenditure of public money that may be considerable, in direct opposition to the expressed opinions of the Treasury, of the Comptroller and Auditor General, and of the Public Accounts Committee. [*See further P.A.C.* 2. 1885. 47 (6) *and* (7), *at p.* 169.]

The opinion of the Committee of Public Accounts on points of financial order ought on every occasion to receive the most respectful attention from the Departments concerned. Upon points which my Lords admit to be doubtful, they as a rule defer to the opinion of the Committee. If a question of importance arises upon which they are unable to agree with the Committee, they think it their duty to suspend decision until they have had an opportunity of laying before the Committee the reasons which lead them to differ from the Committee's opinion. If the Committee should still adhere to their original opinion, my Lords in ordinary cases yield, but if they hold the point of difference to be sufficiently important, they would endeavour to bring the question before the House of Commons in a form that will place before the House unreservedly the argument on both sides; the ultimate decision then rests with Parliament.

My Lords prescribing for themselves this line of conduct, could not but notice with regret the different course taken by the Education Department when it presented to Parliament in the Code of 1884 *an article directly overriding the recommendation of the Committee, without (so far as my Lords are aware) any special note or explanation*

to inform Parliament that there had been a difference of opinion between the Committee and the Department upon the point. Such a course of action seems likely to weaken the confidence of Parliament in the proposals submitted by the Executive Government, and to impair the relations between the Committee of Public Accounts and the Departments.

My Lords are ready to believe that the omission is due only to a misapprehension of the effect of a new edition of the Code as in itself a complete notice of everything connected with it. But the method by which the Education Department obtains Parliamentary sanction to its Minutes, departmentally called the Code, imposes special obligations. A long and technical document is laid before Parliament, and, unless an independent member is interested in noticing it, it becomes equal to Statute Law, as the Department contends, sub silentio. *But the sanction of Parliament has to be obtained in a very different way before a Bill becomes law. The passing of a Bill is guarded by scrupulous precautions to ensure full consideration, and to prevent legislation by surprise. My Lords have no hesitation in saying that the method in which the Education minutes now obtain the approval of Parliament is not likely to last if the Department ever departs seriously from the rule of notice.*

Increase of Expenditure.

54. Your Committee have had their attention called to a very important Memorandum prepared by the then Chancellor of the Exchequer in 1881. He noticed that the expenditure of the Education Department had risen 235 per cent. in nine years, and that the total amount raised for Education in that period approached 65 millions.

55. The Memorandum itself will be found in the Appendix. [H.C. 237, pp.179–81.]

56. Your Committee adopt the recommendations contained in that Memorandum, which run as follows:—

> " He recommends, therefore, that before any proposal involving serious increase of expenditure is adopted by the Committee of the Privy Council for Education, it should be submitted to my Lords, with a statement of which it might be convenient to receive several copies in print, showing at length (1) How the Code, or in the case of the Science and Art Department, the Directories, will stand after the new matter is incorporated in them; (2) What difference would have been made in the last year's expenditure reported, if this matter had then formed part of the Code or Directories; (3) What increase in the next year's estimate on the same account is anticipated; (4) What are the objects which are held to justify this increase in the public charge.
>
> " The Chancellor of the Exchequer submits that a report should be made to himself from the Treasury upon this statement, to enable him, if he afterwards attends the Committee, to do so with a full knowledge of the financial consequences involved." [*See further* P.A.C. 2. 1885. 47 (3), *at p.* 169.]

The Committee notice with approval the Memorandum of the Chancellor of the Exchequer in 1881, *on the communication to the Treasury of proposals tending to increase the expenditure out of Education Grants. My Lords fear that the Education Department has, up to the present, failed to recognize the conclusions at which Mr. Gladstone's Memorandum arrives, or at least that it has not acted upon them.*

TRANSVAAL.

Rendering of Appropriation Accounts.

91. Your Committee were surprised that the Treasury, rather than the Colonial Office, should appear as the Accounting Department for this expenditure. The explanation is, " that the Treasury only came " into the question at the time when the breaking out of the hostilities " in the Transvaal at the close of 1880 and the beginning of 1881 " made it impossible to charge the expenditure any longer against the " Transvaal Exchequer. When the accounts came in, or rather when " the first statements came in, they were very unsatisfactory. . . . " The Colonial Office then requested the Treasury to undertake the " duty as being perhaps a more competent Department to deal with a " difficult account."

92. Your Committee hesitate to accept this explanation as a complete satisfaction of the requirements of the 22nd Section of the Exchequer and Audit Departments Act, 1866, by which it appears that the Department charged with the expenditure of any Vote shall prepare the Appropriation Account.

The Committee think that under the 22nd section of the Exchequer and Audit Act, the Colonial Office, rather than the Treasury, should have accounted for this Vote. My Lords concur in principle with the Committee. They have, however, to point out the abnormal character of the transactions which form the subject of the Vote, and to add that they undertook a task ungrateful to themselves, only for the purpose of laying before Parliament as complete an account as could be prepared at the time, when the circumstances were brought to their knowledge.

Expenditure recoverable from Colonies.

93. Your Committee desire to express a very decided opinion, that whether expenditure will ultimately fall upon Colonial or upon Imperial resources, equal vigilance and care should be exercised in its administration, from the commencement of, and during, the undertakings with which it is concerned.

They entirely agree with the Committee that so far as the Imperial Government is responsible for charges to be defrayed from Colonial Revenues, the same care and vigilance should be exercised as if the charge were to fall on Imperial Revenues.

Treasury Sanction for Expenditure.

94. Your Committee also consider that whenever an enterprise is undertaken that may ultimately occasion a liability to fall on the Imperial Exchequer, application should be made to the Treasury in the first instance, in order that proper authority may be obtained to incur expense, and this expense should be estimated with as much accuracy as the circumstances of the case permit.

My Lords agree with the Committee. . . .

Financial Instructions necessary.

95. A large part of the expenditure referred to your Committee for examination was connected with the Transvaal Royal Commission of 1881. Although many payments are unvouched, and some of the charges are extravagant, and several irregularities arise in the arrangement of the accounts, the Comptroller and Auditor General has, in the opinion of your Committee, wisely admitted the charges on account of

the obvious and unavoidable difficulties created by the circumstances of the case. So far, therefore, the transactions may be considered as closed. Yet a remark in the Report of the Comptroller and Auditor General demands notice. He states as follows: "No instructions appear to "have been issued for the guidance of the Royal Commission with "reference to its general expenditure, nor, as far as can be learned, "does there appear to have been any suitable control over the issue of "stores, or any undivided responsibility as to their care."

96. It is, at any rate, some satisfaction to learn that there is an intention in the Colonial Office, the Department responsible in this instance, "to see that in all future cases better arrangements are made."

In paragraphs 95 *and* 96, *the Committee remark upon the fact that the Colonial Office issued no financial instructions to the Royal Commission of* 1881, *and that there was no suitable control over the issue and care of stores. As this remark applies with greater force to the absence of financial instructions to the mission of Sir T. Shepstone, my Lords will consider the two cases together. They must admit that they cannot understand the reluctance of the Colonial Office to issue financial instructions to individuals, or bodies about to be entrusted with the expenditure of public money. The Colonial Office cannot escape thereby the ultimate responsibility, and as persons usually err through ignorance rather than intention, trouble and labour are imposed upon the Home Authorities, which would have been saved by the issue beforehand of a few simple instructions. If, for example, the case of the Transvaal mission be taken, Sir T. Shepstone was in this country, and it must have been possible, in consultation with him, to fix some maximum number of persons of whom the mission would be composed and their allowances. In the next place, the Transvaal, though a difficult, was not an unexplored country, and Sir T. Shepstone's local knowledge would have enabled him to state approximately the cost of transport of the number of persons to be employed. In the same manner, an estimate of the cost of subsistence could be framed, and a margin allowed for entertainments and other expenses incident to the mission. The estimate thus framed could be amended from time to time upon further information. Upon the data thus obtained, the chief of the mission should receive authority to procure funds up to a given amount. Some discretion would, no doubt, be allowed him according as circumstances appeared to require, and he would be instructed how to obtain money. The head of the mission should be informed that one of his officers must act as paymaster and accountant. It would be the duty of this officer to see that all payments were made under proper authority, were duly vouched, and that at stated intervals an account of the receipt and expenditure was made out and submitted to the head of the mission. The vouchers should be carefully kept for production eventually to the Auditor.*

Lastly, the head of the mission should be informed that no special or unusual expenditure should be incurred without his direct sanction in writing. The instructions and duties thus sketched out are of a very simple character, and my Lords earnestly hope that the Colonial Office will, on future occasions, adopt and enforce them.

ARMY APPROPRIATION ACCOUNT.

Gross Total.

118. Your Committee concur with the Comptroller and Auditor General that the gross total of the Army expenditure should, as in the Account 1881–82, be distinctly shown upon page 4 of the Appropriation

Account for the purposes of comparison as well as for other reasons. The explanatory statement given upon page 8 of the Appropriation Account, 1882–83, may be usefully retained in future years.

I am to say that my Lords will consider as to the precise form of Appropriation Account which will most conveniently and clearly exhibit the information to be laid before Parliament under the rule laid down by the Treasury Minute of 1 February 1882.

VOTE 12.—SUPPLY, MANUFACTURE, AND REPAIR OF WARLIKE AND OTHER STORES.

Store Audit.

128. The question of a store audit has come under the consideration of your Committee in connexion with the Expedition to Egypt. The subject is not without difficulty, and requires full and friendly discussion on the part of the various Departments that are concerned, with suggestions that would probably take the form of a memorandum or report, either severally or collectively, as the result of a Departmental Committee.

129. The Treasury view is clearly set forth in reply to Question 1249, and with that view your Committee are disposed generally to concur, viz., " that an audit of Store Accounts is important, and that the " difficulties connected with it must be fairly faced. The step which is " now being taken is, in their opinion, an important step towards the " realization of that object, namely, first of all, that the War Office " should for itself examine and compile an Annual Account of Stocks " of Army Stores, and when such an account as that has been prepared " it would be for the Treasury to judge to what extent that secures an " efficient control of the Army Stores. And further, it is the view of " the Treasury that such an account, when it has been prepared, would " afford a fitting opportunity for the Comptroller and Auditor General " to express his view, apart from the Treasury, as to what he could do " towards instituting an independent audit of such stores."

130. It may, however, be useful for your Committee to give some further indication of their opinion, with the view of arriving at a settlement of the question at no distant period.

131. They are strongly impressed with the advantage of an audit independent and outside of the Department, however careful and exact the Departmental Audit may be. They consider that in the public interest some evidence should be afforded that the Quantities and Values of the Army and of the Navy Stores are amply maintained from year to year, and that for this purpose a complete stocktaking should be undertaken.

The Committee deal in these paragraphs with the important subject of Store Audit, and their suggestions ought to receive the respectful consideration of this Board before the Committee reassembles.

NAVAL STORES.

Sale of Old Stores.

166. Vote 10.—Your Committee are informed that old ships may in certain cases be more advantageously sold by private contract than by public sale.

167. The following instances are given:—Offers, as the result of public advertisement, were made of £510, £1,375, and £7,250 for three ships, which were respectively sold by private contract for £873, £1,450, and £9,044.

168. The opportunity for such sales must obviously be limited, and great care should be taken by the Department to secure a *bona fide* competition.

169. The value of ships sold in each year varies considerably. In 1882–83 the amount realized was £51,828; in 1883–84, £104,011. It is not quite clear upon what principle the ships are selected for breaking up, but your Committee consider it essential that financial convenience should not affect the quantity that may be annually condemned. The sale of old stores can more readily be effected by public auction, and this, with due precautions, should probably be the course usually adopted.

Their Lordships of the Admiralty will doubtless note the remarks of the Committee with reference to the sale of old stores by public auction, and also the decided expression of their opinion that financial convenience should not affect the quantity of shipping that may be annually condemned.

Expenditure Incurred in connexion with the Military Operations in Egypt.

Accounts of Expenditure on Extraordinary Services.

174. Vote 17.—A question is raised by the Comptroller and Auditor General as to the character of the account that should be furnished in respect of any extraordinary military or naval expenditure. It would doubtless be interesting and instructive to obtain, if possible, an accurate account of the total expenditure in wages, stores, material, pensions, allowances, &c., of any particular expedition, but such a calculation would be difficult and could scarcely be accurate. Any extraordinary expenditure must of necessity be very much mixed up with the ordinary expenditure of the service. Moreover, in troublesome times any Government possessing ordinary prudence will gradually increase the supply of stores, men, ships, and war material, and it would not be easy to allocate precisely such expenditure to any particular expedition. The increase, and in a greater degree the diminution, of stores, as the result of any military or naval operation, is a subject of the highest importance, but it may be a question how far it comes distinctly under the consideration of your Committee.

175. It appears to your Committee that in the main they desire to be informed, so far as may be, of the application of any particular Vote of Credit for any particular expedition, and also of the application of any portions of the Ordinary Votes of the year to the same purpose which, if not so used, would either be applied to the ordinary purpose of the Vote or to the surplus on the Vote. In short, it is the direct rather than the indirect expenditure with which your Committee have to deal. The point is not free from doubt, and may be open for consideration at a future time, but for the present your Committee accept the view expressed by the Treasury, and raise no objection to the form in which the information has been given in the Appropriation Account now before them. At the same time they are aware that the amount reckoned as the expenditure for the Expedition to Egypt is not exhaustive and complete, but merely approximate, leaving various items of indirect

expenditure untouched. However, they take the amount arrived at as being on the whole a fair description of the gross cost.

My Lords note the remarks of the Committee on the nature of the account to be rendered for extraordinary military expenditure.

HIRE OF TRANSPORTS.

Cancellation of Contract.

179. An item for the cancellation of a contract would be better placed under a separate subhead, rather than under the heading of "Hire of Transports."

My Lords agree with the Committee that a payment for the cancellation of a contract should preferably be made the subject of a separate subhead.

FIRST REPORT, 1885. H.C. 112.

Treasury Minute, 3 November 1885.

CLASS III., VOTE 33.—CONSTABULARY, IRELAND.

Failure to present a Supplementary Estimate.

5. There is a Net Deficit of £7,780 8*s*. 5*d*. upon this Vote. . .

The Treasury explained that a Supplementary Estimate is always called for, as a rule, but in this instance the Department, as late as 15 February, stated that they hoped by savings not to exceed the Vote. Your Committee is of opinion that the Statement required by the Treasury from each Department towards the end of the Financial Year should show as far as possible the probable excess or deficiency, when the amounts involved are large, on each subhead of the Vote.

With reference to the deficit upon the Vote for the Royal Irish Constabulary, my Lords note the opinion of the Committee as to the information which should be required from each Department in reply to the call for Supplementary Estimates, and they will desire large anticipated savings or excesses in subheads to be stated.

The present practice is, that Departments are desired, in all cases where they consider that a Supplementary Vote is required, and in all cases of doubt, to submit a full statement of the condition of their Votes, in order that the responsibility of deciding whether a Supplementary Estimate should be presented to Parliament may rest with this Board.

My Lords think that the sufficiency of this arrangement is proved by the very moderate number and amount of the Excess Votes which have been required of recent years.

SECOND REPORT, 1885. H.C. 267.

Treasury Minute, 3 November 1885.

CIVIL SERVICES.

CLASS I., VOTE 1.—ROYAL PALACES.

Insurance.

2. It appears that loss occasioned by fire at Hampton Court, £3,998 11*s.*, was not covered by insurance. It is not the custom to insure Government Buildings, and your Committee are informed that, according to the experience of the past, no economy would be effected by a change in the practice.

VOTE 6.—PUBLIC BUILDINGS.

Payment of Rents.

4. Your Committee approve of the system that has been recently adopted of paying rents as they fall due, instead of waiting for application.

CLASS III., VOTE 19.—BROADMOOR CRIMINAL LUNATIC ASYLUM.

Farm and Garden Accounts.

38. The Comptroller and Auditor General having drawn attention to the circumstance that under Subhead P. of the Vote the item Farm and Garden appears without either any estimate for a Grant or any expenditure, your Committee have suggested that some simple method of keeping and of showing the Farming Account might be adopted, which would obviate the necessity of an artificial balancing of the accounts.

My Lords understand that the artificial balancing of the farm accounts, to which the attention of the Committee was drawn by the Comptroller and Auditor General, is the result of a system under which, by exercising a very close watch over the two sides of the account, you have been enabled towards the close of each year so to regulate the receipts and payments as to avoid on the one hand a charge upon the Vote in respect of a service which is not in fact an item of charge, and on the other hand, the payment to the Exchequer of a surplus of receipts which, in your view, should take the form of a reduction in the cost of the establishment. My Lords recognize the careful attention which you must have given to the transactions of the farm in order to arrive each year at the precise results which have been brought under notice, and they agree that it is undesirable that the farm should in ordinary circumstances become a charge against the Grant of Parliament, as would be the case if the expenditure in any year were to exceed the receipts; though it is obvious that the first cost of stocking the farm must have been charged against the Vote, and that any exceptional replacement of stock, arising, for example, out of a heavy loss, would have to be similarly provided for. The present practice, however, not unnaturally conveys an impression of a forced agreement of the two sides of the account.

My Lords learn from the statements placed by you before the Committee, and from other explanations, that the purchase and sale of sheep constitute the only considerable item in the farm transactions which may be said to be not directly connected with the production of articles for consumption in the asylum, and that this class of live stock is only used as a means of fertilizing the land at certain times of the year. They

also understand that there would be very great difficulty in framing any satisfactory estimate of receipts and payments in respect of this portion of the annual farming operations. The really important point, however, will be met by giving full information to Parliament of the nature and extent of the farm transactions, and my Lords believe that it will satisfy the object of the Committee if the Appropriation Account is accompanied by statements for this purpose.

I am therefore to request that you will in future append to the annual Appropriation Account statements in similar form to those which you laid before the Committee showing (1) *particulars of the receipts, transfers, and payments on account of the farm, and* (2) *the valuation of the stock at the end of the year. Also* (3) *a statement of the numbers and description of live stock purchased and sold, or otherwise disposed of, in the year, with the numbers remaining on the farm at the commencement and close of the year.*

The net results of the farming operations should be shown on the face of the Appropriation Account by way of addition to or deduction from the total expenditure under the several subheads of the Grant. This method of stating the account will effect the same general result as the present system without the necessity for an exact balancing of farm receipts and expenditure.

VOTE 31.—COUNTY COURT OFFICERS, IRELAND.

Use of Appropriation Act to overrule earlier Act.

41. Legislation should be obtained to sanction if necessary the payments made to certain resident magistrates in excess of rates authorized by the Act 37 & 38 Vict. c. 23.

42. Your Committee cannot accept the view in a legal, still less in a financial sense that the distinct terms of an Act of Parliament may be properly overriden by a Supplementary Estimate supported by the Appropriation Act. Your Committee trust that this matter, which is one of great importance from a constitutional point of view, will, in the next Parliament, be very carefully examined and reconsidered by the Public Accounts Committee.

My Lords concur in the opinion of the Committee as to the danger both on financial and constitutional grounds of any general adoption of the view that the distinct terms of an Act of Parliament may be overridden by a subsequent Vote supported by the Appropriation Act. In the case of the salaries of the Resident Magistrates the irregularity has been the result of failure to obtain in time the sanction of Parliament to a Bill which had been introduced to legalize the increased salaries in question rather than of a deliberate intention to override a Statute in the manner described.

Write to the Chief Secretary for Ireland—

I am to request that you will call the attention of his Excellency the Lord Lieutenant to the gravity of the irregularity, both from a financial and constitutional point of view, which has now been allowed to exist for three successive years. My Lords are aware that attempts have been made to legalize the additional salaries of the Resident Magistrates by a clause inserted in a Bill which, through stress of circumstances, has failed to pass into law. They trust that steps will be taken to remove the irregularity, otherwise my Lords fear that it will be necessary to reduce the salaries within the limits sanctioned by the law.

Payments in excess of Statutory Rates.

Let the following circular be addressed to the Accounting Officers of the various Departments accounting for Votes of Parliament:—

I am . . . to acquaint you that the Public Accounts Committees of the past and preceding Sessions have upon more than one occasion noticed with disapproval cases where sums in excess of limits imposed by Acts of Parliament have been inserted in the Estimates, and have subsequently been voted by Parliament and confirmed by the Appropriation Act. The Report of the Committee of 1885 (paragraph 42) expresses disapproval of such a proceeding in distinct terms, and recommends the matter to the consideration of the Public Accounts Committee in the next Parliament, as one of great importance from a constitutional point of view.

My Lords fully share in these views of the Committee, and when such irregularities have been brought to their notice, they have only, so far as they are aware, permitted them under very exceptional circumstances and in anticipation of obtaining from Parliament an immediate alteration in the law.

Cases have been recently brought to their notice where such a departure from statute has continued for a considerable period. Under these circumstances they think it desirable to call the attention of Departments to the matter, and I am to request that if you are aware of any such case in the votes for which you are accountable you will at once bring it to the notice of my Lords in order that they may consider the course to be pursued.

CLASS IV., VOTE 1.—PUBLIC EDUCATION, ENGLAND AND WALES.

Code of Regulations.

47. Your Committee found that many points presenting serious difficulties, both in principle and in detail, remained open for solution. They therefore requested Sir R. Lingen, now Lord Lingen, and Mr. Ryan on behalf of the Treasury and Audit Office, to meet Mr. Cumin, on behalf of the Education Department, in friendly conference. The result has been the adoption of the following seven Resolutions:—

"(1) The Code contains the conditions required to be fulfilled in order to obtain an annual Parliamentary grant, but its provisions shall not be pleaded as authorizing a course in contravention of statute law. If such alleged contravention be not admitted by the Education Department, the opinion of the Law Officers shall be taken on an agreed case.

"(2) The Education Department shall, when required by the Comptroller and Auditor General, produce all documents or evidence in their possession, by which they considered themselves justified in making any payment. The Comptroller and Auditor General, if he considers such evidence insufficient, shall specifically indicate the further evidence required, and the Education Department shall then, to the best of their ability, furnish such evidence. It shall be understood, on the part of the Comptroller and Auditor General, that while he can accept no qualification whatever of his right of inquiry, within the lines of the Exchequer and Audit Act, he will always be ready to confer with the heads of the Education (as of every other) Department, as to the most convenient way of exercising his functions in this respect.

" (3) The provisions of the Minute of the Chancellor of the Exchequer of 2 March 1881, shall be fully observed. [*See* P.A.C 2. 1884. 54-6, *at p.* 160.]

" (4) The language of the Code shall be made as explicit as possible, and the plain grammatical sense of the words employed shall be taken to be that intended.

" (5) The Education Department shall give due notice to managers that they are liable to stoppage or recovery in respect of over-payments, and such notice having been given, the Education Department shall exercise the power of stoppage or recovery, and shall abandon no claims for stoppage or recovery, without first obtaining the consent of the Treasury on a statement of reasons in accordance with paragraph 48 of the Second Report (1884) of the Committee on Public Acounts.*

" (6) If the Committee of Public Accounts shall be of opinion that payments not covered by the Code are being made, such payments shall cease as soon as the Treasury intimate to the Department that they concur in the opinion of the Public Accounts Committee.

" (7) The award of the Public Accounts Committee on a disputed point when given in their Report, shall be accepted and acted upon; or if not, the course indicated by the Treasury in their Minute of 13 November 1884, on the Public Accounts Committee's Report, 1884, on the Vote for Education, page 7,** shall be followed. If, however, the circumstances of the case require an immediate alteration of the Code, the earliest possible intimation of such necessity shall be given to the Treasury, and a paper shall be laid before Parliament in anticipation of the presentation of the Code, stating the nature of the alteration, the fact that it is opposed to the recommendation of the Public Accounts Committee, quoting the paragraph of the Committee's Report, and giving any correspondence between the Education Department, the Treasury, and the Audit Office bearing upon the subject."

48. Your Committee desire to express their approval of these resolutions, and at the same time to offer their full acknowledgement of the service that has been rendered by those gentlemen in assisting to solve questions and views that, if encountered otherwise than in a spirit of conciliation and friendliness, would have caused no little embarrassment and inconvenience.

My Lords join with the Committee in the satisfaction which they express at the extrication of the questions which have been so long at issue upon the Appropriation Accounts of the Education Department from the embarrassing position into which they had drifted.

They feel confident that the series of Resolutions which have been agreed upon afford a sound basis for the avoidance of such difficulties in future, and they trust that means will be found to avert the possible inconveniences to which you refer in your letter of 6 *July.*†

CLASS V., VOTE 1.—DIPLOMATIC SERVICES.

Financial Instructions necessary.

55. In certain special missions charged under this Vote your Committee think that proper accounts have not been kept, and they are of opinion that the addition of some financial officer to such missions would conduce to the economy and regularity of the expenditure of public money.

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* *See* p. 158. ** *See* p. 159. † *See* H.C. 267 of 1885, p. 134, Q. 1623.

My Lords concur with the Committee in attaching importance to the maintenance of due economy and regularity in the expenditure upon special missions. The instances referred to by the Committee appear to show that financial rules are not always applied with the strictness which should be observed in all cases where public money is in question. My Lords trust that in all future cases care will be taken to issue precise and definite instructions suitable to the occasion, and to require strict observance of them, and on all occasions to nominate some single officer who shall be responsible for proper regulation of the expenditure and due rendering of accounts.

Revenue Departments.

Vote 2.—Inland Revenue.

Payment in excess of Statutory Rates.

65. Allowances have been made to certain clerks of the Commissioners of Income Tax and Inhabited House Duty, which are not supported by Schedule 1 of the Act 43 & 44 Vict. c. 19 (Taxes Management Act, 1880). This is a strictly legal point. An opportunity should be taken to alter the law, if any alteration is requisite for the administration of the Department, in conformity with statute law.

The point raised by the Comptroller and Auditor General as to the effect of provisions of the Act 43 & 44 Vict. c. 19, with regard to certain allowances made to Clerks to Commissioners of Income Tax, touches the more general question whether the distinct terms of an Act ought to be overridden by a vote supported by the Appropriation Act.

The Committee have, with reference to the Appropriation Accounts of another Vote, expressed a strong opinion as to the impropriety of this practice both from a financial and constitutional point of view.

My Lords concur in this opinion of the Committee as a general principle which ought not to be departed from except under very rare and exceptional circumstances. The cases to which the Comptroller and Auditor General calls attention upon the Inland Revenue Vote are not of this description. They are extra statutory allowances which are considered proper for regular payment, and have been so for many years. If it is necessary to continue them they should be legalized by statutory authority. In that case I am to desire, that you will prepare the proper clauses for insertion in the first convenient Bill.

Note.—See Revenue Act, 1889, 52 & 53 Vict. c. 42, s. 13; and Taxes (Regulation of Remuneration) Act, 1891, 54 Vict. c. 13, s. 2.

Vote 3.—Post Office.

Deductions from Revenue.

69. The expenditure upon the Parcel Post is stated by the witnesses on behalf of the Post Office to be so amalgamated with the Letter Post that it is not possible to arrive at an accurate statement of the profit or loss upon the Parcel Post system.

70. A somewhat similar observation applies to the costs and receipts for cards, envelopes, wrappers, &c., which are mixed up with the item "Stamps sold to the Public." In neither case is strict financial accuracy

obtained, but it is urged that the expense and labour of separating the accounts would in the latter case be too great, and that the payments on account of the Parcel Post are made in accordance with the directions contained in the Parcel Posts Act. Your Committee think that with regard to the Parcel Post, the matter should be further considered with a view to an alteration of the law, so as to obtain an accurate rendering of an important amount of expenditure.

The Report of the Comptroller and Auditor General is directed to two points, (1) a suggestion that the payments to Railway Companies for the carriage of parcels under Section 2 of the Act 45 & 46 Vict. c. 74 should be included in the Estimates and voted by Parliament; and (2) a complaint that he is not supplied with any data *by which he can check the accuracy of the proportion of receipts from the Parcels Post which is handed over to the Railway Companies.*

An alteration of the law as suggested by the Committee would appear to affect the first of these two points, i.e., it would enable the Postmaster General to make the payment to the Railway Companies out of voted moneys instead of out of the gross receipts from the Parcels Post.

My Lords are not, however, prepared to admit the expediency of a change in the mode of payment to the Railway Companies. They need not here enter fully into the reasons which led to the adoption of the present arrangement. The subject was, as you are aware, fully considered when the Act was drawn. But they would observe that the suggestion of the Comptroller and Auditor General appears to have been made under a misapprehension as to the nature of the payments, since the sums which the Post Office pays to the Companies do not constitute public "expenditure" in the ordinary sense, but only money which, as the result of prepayment in full of all charges, the Post Office receives on behalf of the Companies. The terms of the Act of Parliament recognize this fact by directing the Postmaster General to pay to the Companies as their remuneration eleven twentieths of the gross receipts from parcels conveyed by them, a direction which does not require the interposition of a vote of Parliament. My Lords do not, therefore, think that any alteration of the law is required in this respect. They may add, further, that even if they could be properly regarded as extra receipts, to make them payable to the Exchequer, would be practically a reversal of the policy in which the Committee, the Treasury, and the Comptroller and Auditor General concur.

As regards the second of the points raised by the Comptroller and Auditor General, my Lords do not quite understand his difficulty in satisfying himself that only eleven twentieths and no more of the gross receipts are paid to the Railway Companies. The Act provides an arrangement for access by the Companies to the Accounts, which appears to be sufficient to enable them to satisfy themselves as to the correctness of the share of the gross receipts handed over to them, and my Lords do not understand that the same facilities for examination are not open to the Comptroller and Auditor General.

With regard to the receipts for cards, envelopes, wrappers, &c., to which the Committee refers, the principle indicated by the Comptroller and Auditor General of separating the amounts charged to the public for the paper or other material from the amounts charged for postage is, in my Lords' opinion, a correct one. I am to ask you to consider whether some means could not be devised by which the postage value received upon such articles could be ascertained, and the balance of the receipts from them paid into the Exchequer as extra receipts in aid of the Vote.

T.M. 27 December 1886, on Second Report 1886.—With regard to the question raised by the Committee of Public Accounts last year as to the separation of the amount received from the public in repayment for the materials of post cards, wrappers, &c., as distinguished from the amount representing pure postal charge, my Lords accept your predecessor's assurance of the impossibility, without disproportionate expense, of distinguishing these two classes of receipt so as to bring them under different heads of Revenue. A note should, however, be added to the Appropriation Accounts as suggested in your predecessor's letter of 3 May, stating the value of all the material issued to Postmasters for sale in the year.

Army Appropriation Account.

Form of Estimates.

78. A question has been raised whether deferred pay should appear in the Estimates for Effective or Non-Effective Services. On the present occasion your Committee do not suggest any alteration in the existing arrangement. They cannot, however, concur in the view of the accounting officer that considerations connected with the form of the Estimates are beyond the functions of the Comptroller and Auditor General, the Estimates being very closely bound up with the Accounts, of which they form the basis.

The Committee are of opinion that considerations connected with the form of the Estimates are not beyond the functions of the Comptroller and Auditor General. My Lords see no reason to contest this opinion. They have only to observe that the duty of prescribing the manner in which the accounts shall be kept in each Department and the form in which the receipts and payments shall be exhibited in respect of each Vote, rests by statute with the Treasury, and it is essential that the Estimates submitted to Parliament shall conform to or anticipate the shape which it is intended that the Appropriation Accounts shall take. The form of Estimate, therefore, is in every case prescribed or approved by the Treasury, and no Department is at liberty to vary the form without Treasury authority. But it is, of course, quite open to the Comptroller and Auditor General to make any suggestions which may seem to him called for in order to promote clearness of account or the better information of Parliament. My Lords do not doubt that such suggestions will always receive the full and careful consideration of the Treasury.

Vote 1.—Pay of the General Staff, Regimental Pay and Allowances, and other Charges.

Treasury sanction to possible Excesses.

80. A charge of £28,710 15*s.* 9*d.* is included in this Vote, arising from the transfer of the 14th Hussars from Indian Service to Imperial Service at the Cape. In such cases Treasury sanction should be obtained, as there is always risk of an excess both in the number of men and of expenditure on the Vote.

The Secretary of State will observe the opinion of the Committee that Treasury sanction should be obtained in such cases as that of the temporary transfer of the 14th Hussars from the Indian service to Imperial service at the Cape, on the ground that there is always risk of an excess both in the number of men and of expenditure on the Vote.

VOTE 11.—CLOTHING ESTABLISHMENTS, SERVICES, AND SUPPLIES.

Issues of Clothing in excess of Regulations.

85. Issues in excess of Regulations should, unless under very exceptional circumstances, have the sanction of the Treasury.

The Secretary of State will observe the opinion of the Committee that issues of clothing in excess of Regulations should have the previous sanction of this Board.

VOTE 23.—OUT-PENSIONS.

Antedating Soldiers' Pensions.

91. Your Committee concur with the Comptroller and Auditor General that a sum of £77 9*s*. 10*d*., the portion of a sum of £98 1*s*. paid in error to a pensioner at Sydney, and not recoverable, should have been treated as a loss irrecoverable instead of being provided for on this Vote by the subsequent antedating of the pension.

My Lords observe that the Committee endorse the opinion of the Comptroller and Auditor General that the balance of the erroneous payment to the pensioner at Sydney should have been treated as a claim abandoned.

UNCLAIMED SOLDIERS' EFFECTS.

96. Your Committee are pleased to observe that an amount of stock of £44,182 17*s*. 5*d*. has been transferred to the Patriotic Fund for the benefit of widows, or children, or relations of soldiers dying in the service, and that all future unclaimed residues will be applied in the same manner.

ARMY (INDIAN HOME CHARGES).

NON-EFFECTIVE SERVICES.

103. The sixth paragraph of the Comptroller and Auditor General's Report states that he has reason to believe that the Exchequer receipts do not represent the full payments made by India. This matter, which has been dealt with in the Treasury Minute laid before Parliament on cash balances in the hands of the Paymaster General (No. 145/1885) is one of considerable importance, and should not be lost sight of. . . .

With regard to the employment of the balances held on account of the payments made by India, my Lords have already fully explained the circumstances in their Minute to which the Committee refer. . . .
[See Treasury Minute, 16 April 1885, on next page.]

NAVY APPROPRIATION ACCOUNT.

VOTE 10.—ADVANCES TO CONTRACTORS.

108. Without expressing at this stage a positive opinion that the practice should not be allowed, your Committee think that there should be strong reasons before the Treasury should sanction the Department incurring an excess upon a subhead, to meet payments to which a contractor has no legal claim under his contract.

In view of the opinion expressed by the Committee I am to request that in future when applications are made to this Board for authority to incur an excess upon a subhead, the attention of my Lords may be distinctly drawn to any cases in which such excess is due to advances to contractors to which they have no legal claim under their contracts;

and that a full explanation may be given of the reasons which appear to justify the application.

VOTE 12.—FUNERAL EXPENSES OF OFFICERS.

112. A payment in excess of the authority given under Article 1019 of the Queen's Regulations has been sanctioned by the Treasury. This subject is not completed, and will require further consideration.

The Board of Admiralty will recollect that it was decided, as the result of a correspondence concluding with the letter of your Board, dated 8 March 1884, that the limit of expenditure laid down in the existing Regulations should be adhered to, and that any special case in which it may be considered that a sum in excess of the authorized amount might be allowed should be submitted for the sanction of this Board.

GREENWICH HOSPITAL ACCOUNT.

118. A Bill has been drafted with the view of dispensing with the necessity of payment from and repayment to the Consolidated Fund. But your Committee are informed that the account will not thereby be removed from the examination of the Comptroller and Auditor General and from the control of Parliament.

The Bill referred to by the Committee has now, as you are aware, become law, and provides for the annual submission to the House of Commons of an Estimate of Income and Expenditure for the current year, to be approved by resolution. [See Greenwich Hospital Act, 1885, 48 & 49 Vict. c. 42.]

TREASURY MINUTE, 16 APRIL 1885 (H.C. 145/1885).

Employment of Cash Balances in the Hands of the Paymaster General.

The Chancellor of the Exchequer states to the Board, that the following question was put to him on 21 February, in the House of Commons, by Mr. W. H. Smith:—

"Whether it is the fact that the Paymaster General, by direction of the Treasury, has advanced out of the balances of miscellaneous deposits for which he is accountable, not being Ways and Means provided by Parliament, sums exceeding two millions for Army and Navy Services, and for the Treasury Chest:

"Whether there is any statutable authority for so dealing with these balances; and when and by what means it is proposed to repay the amounts advanced:

"Whether the amounts so advanced are included in the weekly published accounts of the payments out of the Exchequer for Supply Services, which, on 14 February, were shown to be 45,188,179*l.*, or whether those payments should be increased by the sums advanced out of balances, other than Ways and Means, by the Paymaster General:

"And, whether there are any other funds under the control of the Treasury, as *e.g.*, the Savings Banks Funds or the Post Office Balances, which could be applied in the same manner."

The Chancellor of the Exchequer replied, that an intelligible explanation would not be within the limits of an answer in the House of Commons, but that he would lay upon the Table a Paper describing the transactions to which Mr. Smith had called attention.

Their Lordships are aware that Mr. Smith has been so good as to assist Her Majesty's Government upon an important inquiry instituted to ascertain whether the duties now discharged by the Department of the Paymaster General could, with advantage to the public, be transferred either altogether, or in part, to the Bank of

England, and Mr. Smith's question is understood to be based upon information furnished for the use of the Committee to which this inquiry has been entrusted. The Chancellor of the Exchequer thinks it very desirable that the principle upon which the Treasury makes provision for the daily requirements of the public service, and the manner in which it gives effect to the principle, should be made as intelligible as possible to all who take an interest in the subject, and he is glad to avail himself of the opportunity afforded by Mr. Smith's question to lay before the Board a description of the arrangements under which money is supplied day by day for the current expenditure of the State.

I. The rules of financial administration in the United Kingdom are founded upon the principle, that the House of Commons has complete control over the public expenditure. The Consolidated Fund Account, to which reference will frequently be made, is the general account at the Bank of England of revenue. The gross produce of all taxes and revenues, and also certain receipts of miscellaneous character are carried to the credit of the Consolidated Fund Account.

The expenditure for certain of the Public Services, such as the National Debt, the Civil List, and the Salaries of the Judges, is charged once and for all by Act of Parliament more or less permanent, upon the Consolidated Fund, and is payable at the prescribed periods out of moneys standing to the Consolidated Fund Account, until the Act authorizing the charge expires or is repealed. Permanent charges of this nature are, however, specially defined and limited, whereas the ordinary expenses of military and civil administration are sanctioned every year, and for the year only, by the House of Commons in Committee of Supply.

The Departments of the State obtain money for public services by order on the Paymaster General; the service of the Public Debt and of the Revenue Departments constituting almost the only exceptions to this rule. The Paymaster General obtains money from various sources:—(1) He receives sums realized by the Departments in the course of their administration; (2) He holds the balance for the time being of the large fund, called the Treasury Chest Fund, established to meet temporarily expenditure abroad; (3) He holds the Civil Contingencies Fund, established to defray provisionally unforeseen expenditure of a civil character; (4) He also holds large sums on account of what are called Deposit Funds under the control of different Departments of the State; (5) He is supplied day by day, according to his needs, with money from the Consolidated Fund. These various heads are carefully distinguished as separate accounts in his books, but he does not at all times keep a separate cash balance upon each head. All receipts under the above heads are treated for the time as part of one general cash balance, out of which he defrays, day by day, the orders for expenditure served upon him; thus he exhausts all cash received from without before he applies to the Treasury for an issue from the Consolidated Fund, and it follows that returns of issues from the Consolidated Fund do not fairly represent the public expenditure, except at prescribed periodical times of adjustment. At those times issues are made from the Consolidated Fund which enable the Paymaster General to replace all the sums of which he has made temporary use for the public service. Again, the House sanctions in Supply the expense of collecting the revenue, and it authorizes the issue out of the Consolidated Fund to the Revenue Departments of a sum corresponding to the amounts thus sanctioned. The Revenue Departments, however, except in the case of the Telegraph and Packet Service, do not in the first instance make use of this credit on the Consolidated Fund. They defray their expenses of collection out of the revenue as they collect it, and before it is paid into the Consolidated Fund. At regular prescribed intervals, as in the case of the Paymaster's account, the accounts

between the Revenue and the Consolidated Fund are adjusted. The Revenue Departments present to the Treasury a statement of the sums which they have expended, and provided always that such sums are within the limits of the Parliamentary authority, the Treasury issues corresponding amounts to the Departments out of the proper Votes, and the Departments repay them to the Consolidated Fund as revenue in adjustment of the amounts temporarily used.

These methods of procedure may appear somewhat complicated in description, but in practice they are extremely simple. Money is used upon the spot where it comes to hand, because in that manner it can be used most economically. Subsequent adjustment of account between the Departments and the Consolidated Fund brings the expenditure into accord with the Votes of the House of Commons. If that adjustment is not made, if the directions of Acts of Parliament or the regulations of the Service are not observed, or if the expenditure exceeds the sums granted by the House of Commons, the House learns the fact through its own officer, the Comptroller and Auditor General, and, through its own Committee of Public Accounts, judges the infraction of law or regulation thus brought to its notice.

The Board will therefore perceive that the House of Commons enforces its control first by examining and sanctioning every head of public expenditure, and that it completes its control by learning from its own officer, after the close of each year, whether the limits which it has imposed have been obeyed, and whether generally the financial administration of the public service has been orderly. When the expenditure has been sanctioned, and during the currency of the financial year, the Treasury conducts expenditure from day to day with a large discretion and in the most expeditious and economical manner. An adjustment of accounts of a general character takes place monthly, a fairly accurate adjustment takes place at the close of each quarter, while at the close of the financial year all the precautions are taken which inquiry and experience can suggest, in order that the issues from the Consolidated Fund for the year, as declared within a few hours of the closing of the books on 31 March, may correspond as closely as possible with the finally audited expenditure as declared some nine or ten months later by the Comptroller and Auditor General.

The Board is aware that this annual adjustment is not a very simple matter; but its general accuracy is of considerable importance. The expenditure which is given in the Budget, upon which Parliamentary accounts are based, and which is always taken as the public expenditure in discussion by Parliament and the Press, is not final expenditure at all; it is a collection of imprests issued out of the Consolidated Fund to the various spending Departments to carry on a service which in several of its branches is spread over the world. It is, therefore, of great moment that these issues from the Consolidated Fund, which are by general assent accepted as representing the Public Expenditure, should correspond as closely as possible with the expenditure as subsequently ascertained by the Comptroller and Auditor General.

The Chancellor of the Exchequer proceeds, by way of test, to state the difference in each of the last four years between the issues from the Consolidated Fund and the expenditure as finally audited; these figures will show whether the result of Treasury experience justifies the confidence of Parliament in accepting the Treasury imprests as equivalent to expenditure, and whether the latitude or discretion allowed to the Treasury in providing from day to day the funds required for the public service has been permitted to influence the accuracy of the Treasury calculations, or has led to misrepresentation of the year's expenditure in the Budget or in the Finance Accounts.

The difference between the finally audited expenditure and the issues from the Consolidated Fund, which are accepted as the expenditure of the year in the Budget and in the Finance Accounts, amounted—

	£
In 1880–81 - - - to - - -	112,000
1881–82 - - - to - - -	251,000
1882–83 - - - to - - -	216,000
1883–84 - - - to - - -	114,000

In other words, the issues from the Consolidated Fund, that is, the Treasury imprests to the Departments ascertained at the close of business on the last day of the financial year, and given to the Chancellor of the Exchequer on the same evening, differed on the average of the last four years from the audited expenditure as established many months later by about 4*s.* in the £100. In the last year, 1883–84, the difference was only about 2*s.* 7*d.* in the £100. These figures speak for themselves; but the Chancellor of the Exchequer must remind the Board that this accuracy only applies to the issues from the Consolidated Fund after the adjustment which takes place from time to time, and notably at the close of the quarter and of the financial year. At other times the issues from the Consolidated Fund would not be found to correspond so closely with the actual expenditure, because of the various methods adopted for economizing the use of the public money. Hence the Returns of Issues from the Consolidated Fund, as published weekly, must not be accepted at other times than those named above as accurate statements of the public expenditure. This point may not be clearly apprehended by the many persons interested in finance who study the weekly returns, and the Chancellor of the Exchequer therefore lays stress upon the fact that the expenditure, as shown in these returns, represents accurately indeed the issues from the Consolidated Fund, but except at the close of the quarter or year it does not accurately represent the actual expenditure.

The Chancellor of the Exchequer has so far described the general principle upon which money is provided day by day for the public requirements, and he may sum up his description by stating that Departments use on the spot, and in the manner judged to be the most economical, all the moneys which they collect, but that such use of their moneys is subject to strict account and periodical adjustment, the Reports of the Comptroller and Auditor General being the main and ultimate safeguard of the House of Commons against error or irregularity.

II. Reference has been made above, under the name of Deposit Funds, to moneys which come into possession of the Government in the course of their large transactions, which are held on deposit or suspense account, and which are not due immediately or at all to the Consolidated Fund. These funds are held on various accounts and for different purposes, sometimes of only a temporary nature, interest is not payable on them, and there is in most cases no legal direction to invest them. It is to moneys of this description that Mr. Smith's question alludes. A part of them is usually invested at the discretion of the Treasury or other controlling Department, and any interest earned upon such investment is paid to the credit of the special fund or to that of the Consolidated Fund. Part remains as cash on the account of the Paymaster General at the Bank of England, and this cash it has been pointed out, is used, like other cash received by the Paymaster General, to meet current expenditure before issues are made from the Consolidated Fund.

The object at which all these arrangements aim is an economical use of the public money, and the reduction to a minimum of cash balances in the hands of the Paymaster General and subsidiary accountants. Formerly a less strict principle of financial management was permitted, and one of the effective administration reforms of the last half-century reduced, by consolidation and economical regulation of balances, most notably the cash lying idle in the hands

of different public officers. With this view a Minute of the Treasury, dated 26 September 1834, and carrying into effect the then recent Act reorganizing the office of the Exchequer, directed the Paymaster General to exhaust the balance of moneys on his cash account for army, navy, and ordnance services, in making payments for these services before any drafts were drawn by him on the Consolidated Fund. The policy of few and small cash balances formed part of financial reforms which were begun in 1832, but were not completed until 1848, and a Minute of 22 December of that year, which was laid before Parliament, summed up some of the results. It describes in the following terms the practice which has been invariably followed, partially from the earlier date, but invariably from 1848 up to the present time:—

"My Lords proceed to consider what instructions it is necessary to issue to the Paymaster General on the subject of his transactions with the Bank of England. It appears to be necessary, in the first instance, that the principle upon which he should regulate his balance should be clearly understood. . . .

"In the Paymaster General's Department the balance at the Bank has been considered as a general fund, applicable to the payment of all current services. . . . By this arrangement the necessity of keeping a larger balance at his credit at the Bank than was actually necessary for carrying on his payments, and of complicating the Bank accounts by multiplying and subdividing balances, which in accounts so extensive would have entailed great labour and risk of error, without any useful practical result, has been avoided. . . .

"It is an object of great importance that the public money should not be issued from the Exchequer either before it is wanted, or in larger sums than the service for which it is issued requires, or in other words, that the balances should be confined to the lowest sum which may be necessary for carrying on the payments for the public service in the most punctual and regular manner. This object, so essential both to security and economy, may be greatly facilitated by considering all the sums received as forming one common fund, to be used indiscriminately for all current payments, according to the practice of the Paymaster General's Office. For these reasons, my Lords desire that the system of account and payment which has been pursued in the Paymaster General's Department since the last consolidation of the pay offices in 1836, be extended to the services lately transferred to his charge.

"This course will be perfectly consistent with a strict appropriation of the Votes of Parliament, as the Paymaster General will not make a payment under any head of service exceeding the balance remaining on the Grant of Parliament for that service; and will keep in his books separate accounts of the grants remaining in the Exchequer and in his hands, under the several heads of service, that he may be prepared to exercise an efficient check upon the accounts of the application of the Votes of Parliament, and to submit to this Board any order for payment which may be drawn upon him in excess of the available balances of the grant unissued from the Exchequer, or in his hands, to which such order may relate."

This Minute was also laid before the Committee on Public Moneys, which sat in 1856 and 1857, and the Committee made the following remarks upon the subject:—

"Your Committee are satisfied, from the evidence taken before them, that the consolidation of the Pay Departments has been attended with public benefit; that it has diminished the balances left in the hands of the public accountants to the Crown; that it has increased the security of the public money and promoted economy; and that the regulation which requires the Paymaster General to make all his payments from a single cash balance has been attended with beneficial results.

"As the issue of money from the Exchequer in amounts sufficient to maintain a constant balance in the hands of the Paymaster, on each separate grant or head of service, over and above the balances in the Exchequer at the credit of such grants and services, would entirely defeat these objects, your Committee recommend that issues from the Exchequer shall be made in order to adjust the payments under every head of service, by placing each in credit in the books of the Paymaster as frequently as possible, consistently with retaining the smallest cash balance, and that such an adjustment shall be completely made at least at the close of every month; that the Paymaster should be required to make up, for the Commissioners of Audit, accounts to the end of every month, showing the balances for or against every head of service; . . .

"They further recommend that moneys on deposit in the Pay Office should be carried to a separate account at the Bank, as they neither form part of the public revenue, nor are voted by Parliament as Ways and Means. The payments may be still made through the general drawing account.

"A statement of the receipts and payments, included in this deposit account, ought annually to be laid before Parliament."

The Treasury, in a Minute dated 15 February 1858, upon the Committee's Report, agreed with the Committee that the practice of retaining the smallest cash balance should be adhered to, but that the Paymaster General should draw from the Exchequer sums sufficient to place every head of service in credit in his books as frequently as possible, and that this adjustment should be completely made at the close of every month; they desired further that a return showing the balances on every head of service should be prepared by the Paymaster General, and transmitted to the Commissioners of Audit with his monthly account, and that the books of the Pay Office should be open to the Commissioners for any examination to which they might think proper to subject such return.

With regard to Deposit Funds, the Treasury proceeded as follows:—

"The Committee also recommend that the moneys in deposit in the Pay Office should be carried to a separate account at the Bank. The principle laid down after the passing of the Acts 5 & 6 Will. 4, c. 35, and 11 & 12 Vict. c. 55, in the Minutes of this Board, for the regulation of the cash accounts of the Pay Department, was, that no special appropriation of the cash balances in the Bank, at the credit of the Paymaster General should be permitted. It was also provided in those Minutes that all transfers between Services should be made in the books of the Pay Office, and that such adjustments should in no case be effected by actual transfers of cash at the Bank of England. The object of these regulations was to prevent an unnecessary accumulation of balances at the bank on the Paymaster General's accounts, and to obviate those complications of account which experience had proved to be inconsistent with the due security of the public money.

"All public moneys paid to the Paymaster General, except Exchequer credits, are placed to a general account at the Bank of England, called the Paymaster General's Cash Account; these moneys are divided in the Pay Office cash book, and, in the daily proof of the balances, under five general heads, viz., Army, Navy, Naval Prize, Treasury Chest, and Miscellaneous Civil Services; the deposit moneys are included under the last head. In order to give effect to the recommendation of the Committee, as far as possible, without impairing the securities provided by the present arrangement of the Bank accounts, and the system of payment and record founded upon it, my Lords desire that the Paymaster General will raise in his accounts a sixth general head of cash, to represent the deposit moneys."

The Minute added, that a Return of deposit moneys by the Paymaster General would be, in some respects, defective, but directed that such a Return should be prepared for presentation to Parliament.

It must be borne in mind that the Minute of 1848 was passed, and that the Committee on Public Moneys reported, at a time when the Treasury was practically uncontrolled, when the independent position of the Audit Office was not established, when no audited accounts of a large part of the public expenditure were presented to Parliament, and when there was no Committee of Public Accounts to note irregularity on the part of the Treasury. If the interest of economical administration justified the Treasury at that time in exercising such a discretion as has been described, much more properly can that discretion be exercised now, when the Treasury is subject to the active supervision of the House of Commons, and when abuse of power must be quickly followed by detection.

In the interval between 1848 and the present time, Parliament passed the Exchequer and Audit Act, which provides, Section 11, as follows:—

> "With a view to economize the public balances, the Treasury shall restrict the sums to be issued or transferred from time to time [from the Consolidated Fund], to the credit of accounts of the [Paymaster General and other] principal accountants at the Banks of England and Ireland, as hereinafter provided, to such total sums as they may consider necessary for conducting the current payments for the public service intrusted to such principal accountants; and the said principal accountants may consider the sums so transferred to their accounts as *constituting part of their general drawing balance, applicable to the payment of all the services for which they are accountable*, but such sums shall be carried in the books of such accountants to the credit of the respective services for which the same may be issued, as specified in such orders. Provided always that this enactment shall not be construed to empower the Treasury, or any authority, to direct the payment by any such principal accountant of expenditure not sanctioned by any Act whereby services are or may be charged on the Consolidated Fund, or by a Vote of the House of Commons, or by an Act for the appropriation of the supplies annually granted by Parliament."

The Board will perceive that this section recognises (1) that there is a general balance in the hands of the Paymaster General to which moneys collected by the Departments, and moneys held on deposit are paid; (2) that this balance is applicable, as laid down in the Treasury Minute of December 1848, to all current services; and (3) that the Treasury is empowered, with a view to economy of the public balances, only to issue to the Paymaster General so much out of the Consolidated Fund as their Lordships may think necessary for conducting current payments. In other words, moneys on the general account of the Paymaster General are recited as applicable to current services, and the Treasury is only to supplement those moneys by issues from the Consolidated Fund to the extent necessary for meeting the charge of current services.

Successive Chancellors of the Exchequer and successive Boards of Treasury have followed the directions contained in the Minute of 1848, endorsed by the Committee on Public Moneys, and sanctioned by the 11th section of the Exchequer and Audit Act, in full conviction that their course of proceeding was not only in harmony with sound financial policy, but that it was distinctly sanctioned by Parliament.

It should, however, be stated that the recommendation that an adjustment should be made completely at the close of every month, has not been fully carried out because that course was not found compatible with the paramount rule confining the Paymaster General to the smallest possible cash balance. Further, my Lords find that

the arrangements contemplated in the Minute for the presentation yearly to Parliament of an account of funds held on deposit, do not appear to have been complied with. The reason of non-compliance is difficult to ascertain after an interval of nearly 30 years, but it was probably due to oversight.

In the 10 years from April 1873 to March 1883 the sums held by the Paymaster General on deposit account for the Treasury and other Departments, as taken at the close of each month, varied from a minimum somewhat in excess of £500,000, to a maximum of nearly £950,000, of which sum a part, varying from £370,000 to £570,000, was invested in Exchequer Bills. The average holding may be approximately stated at about £660,000, of which about £400,000 was invested, leaving an average sum of between £200,000 and £300,000 applicable temporarily, and under conditions which have been previously stated, to the current services defrayed by the Paymaster General.

During the year 1884 the amount so held on deposit by the Paymaster General increased very largely. This increase was due to a special arrangement which the Chancellor of the Exchequer proceeds to describe. The Board is aware that the Government of India pays that share of the pensions of the Queen's Army, which is ascertained to be due in respect of the service of Her Majesty's forces in India, and their Lordships will recollect that by agreement made in 1869–70 by the then Secretary of State for India and the Secretary of State for War, sanctioned by their Lordships' predecessors, the Government of India was permitted to capitalize its share of such pensions as they first fell due. The Chancellor of the Exchequer cannot but think that the agreement was carried out by the Treasury and War Office without sufficient consideration of its actuarial results, and that the consequence has been a financial error, which relieved to a certain extent the Budget of the time at the expense of the Budgets of the future. It is evident in the interest of sound finance, that if a sum representing the capitalized value of the Indian share of military pensions first falling due (say in 1870–71) was paid over to the Imperial Government, only so much of that sum should have been taken in aid of the Budget of the year as represented the actual charge of those pensions paid in the year out of War Office Votes, and that the balance should have been set aside and accumulated to meet the charge of the pensions in future years. This course, however, was not adopted, and year by year the whole sum received by the Imperial Government from India, as the capitalized value of the Indian pensions successively becoming due for the first time, was paid into the Consolidated Fund in aid of the revenue of the year. To state the matter shortly, only the exact sum paid out of the Consolidated Fund in the year ought to have been recouped to it, but under the arrangement as carried out, a much larger sum, belonging in reality to future years, was paid into the Consolidated Fund. This anticipation of future Revenue continued until the year 1880–81; but the unfavourable effect of such anticipation upon the future was much diminished by the fact that the Government of India fell into arrear, and did not pay over to the Imperial Government in each year the full capital value of its pensions as ascertained. In spite, however, of this mitigation of the evil, a very large sum had been realized for the benefit of the Consolidated Fund during the 11 years ended 1880–81 in excess of the sum properly due in that 11 years, and at the expense of the Consolidated Fund in future years. The subject attracted the attention of Mr. Gladstone when Chancellor of the Exchequer, and he decided that a stop should be put to so unsound a method of procedure.* He accordingly moved their Lordships to direct that the Consolidated Fund should receive in each year only so much of the capitalized sums paid by India as would be equivalent to the actual charge of Indian pensions paid out of Army Votes. The balance was to form a fund to meet,

* *See* Treasury Minute on P.A.C. 1882, 101, at p. 134.

as far as it would go, the future charge on Army Votes of the pensions, which had been and were being capitalized. At the same time the Board decided that the agreement of 1869–70 should be revised, and that provision should be made to meet the deficit, which had been rendered inevitable by the previous practice of using capitalized payments as Revenue. The revision of the agreement, and the actuarial inquiries connected with it, have occupied a considerably longer time than was anticipated, and in the meantime no permanent appropriation could be made of the fund which had been begun under Mr. Gladstone's directions, because the approval of Parliament would be necessary to the new arrangement. The money, therefore, which, under the old practice, would have been paid into the Consolidated Fund as part of the year's Revenue, remained on deposit in the hands of the Paymaster General. It had not, however, reached a very large amount until early in 1884, when the Indian Government paid up a part of its arrears.

The Chancellor of the Exchequer hoped to be able to lay the new arrangements before Parliament in the course of last Session, but they were not completed in time.† At the close of the session, therefore, a very large sum appeared uninvested upon the Paymaster's Deposit Account. In ordinary circumstances Mr. Childers would have directed the temporary investment of the larger part of the sum. As, however, there was a probability of warlike operations, for the expense of which provision could not be made until later, and as the produce of any taxation which might be imposed in the autumn Session would only be realized slowly, he thought it more prudent to leave the greater part of this balance uninvested upon the Paymaster General's Deposit Account. Such balance would be applicable, under the arrangements above described, to meet temporarily the authorized current expenses of the public service, and would diminish or render unnecessary a demand upon the Bank of England for large temporary advances to meet provisionally the heavy expenditure of the latter part of the year. The Chancellor of the Exchequer considers that his decision has been justified by the result. It is to be borne in mind that the temporary investment of a large sum always involves a risk of loss as well as gain on realization, and that in the present instance the prices of securities were very high at the time when investment would have taken place. On the other hand, if the investment had been made, a considerable advance would have been required in a time of pressure from the Bank of England, for which, as the event proved, high interest must have been paid, but which, under Mr. Childer's arrangements, was avoided.

The Chancellor of the Exchequer may sum up in the following figures the result of the measures which he has been describing.

During the year 1884–85 the Paymaster General held, on a monthly average of his Deposit Account, in round figures, £2,600,000, of which, in round figures also, £700.000 was invested.

At the close of February, shortly after Mr. Smith's question was placed on the paper, the deposit balance, then at its highest, amounted to £2,887,000, of which £670,000 was invested, leaving uninvested a sum of £2,217,000. Of this sum about £600,000 represented a payment by the Government of India, on account of Indian pensions, which was actually due to the War Office under Mr. Gladstone's arrangement, being about the equivalent of the actual charge of Indian pensions granted since 1870, and paid out of War Office Votes during the year. Provision had duly been made in the War Office Estimates for the receipt of this sum, and the actual transfer was merely delayed on account of a question as to the amount of the actual expenditure of the War Office on these pensions. The transfer to the War Office actually took place shortly afterwards. The amount properly belonging to the Paymaster's Deposit Account in

† *See* Indian Army Pension Deficiency Act, 1885, 48 & 49 Vict. c. 67, and amendment in s. 37 of 59 & 60 Vict. c. 28.

the month of February was therefore reduced to about £1,600,000 uninvested, and this sum, under the arrangements and conditions which have been previously described, was temporarily applied to meet the charge of the current service. The drafts upon the Consolidated Fund during the months of January and February were in consequence reduced, and the temporary loans from the Bank of England in aid of the Consolidated Fund were also correspondingly reduced; but before the end of the financial year the accounts were adjusted, the deposit balance was restored to the proper amount, and full issues were made from the Consolidated Fund to cover the public expenditure.

III. The Chancellor of the Exchequer having thus explained in detail the manner in which provision of money is made to meet the current demands of the public service, and in which also cash of all descriptions in the hands of the Paymaster General is used temporarily for authorized current expenditure, proceeds to answer the specific questions put by Mr. Smith.

1. It is the fact that the Paymaster General, at the time when Mr. Smith put his question, was temporarily employing, under long-established regulations, and with the full authority of the Treasury, the cash to the credit of his miscellaneous deposits, to meet the public expenditure duly authorized by Parliament, and that the sum so employed amounted to almost £2,200,000, but, it has been explained above, that £600,000 of this sum was actually due to the War Office, and had not been transferred to them merely pending decision of a technical question. The real amount of miscellaneous deposits so temporarily employed is therefore more correctly stated at £1,600,000.

2. The Treasury employ such balances temporarily to meet the charge of the public service, under the authority of the 11th section of the Exchequer and Audit Act, which is quoted in a previous paragraph of this Minute; the employment, however, of such balances on authorized current expenditure is only temporary, and is invariably adjusted within the financial year, and the full amount of the public expenditure is issued out of the Consolidated Fund, in accordance with the provision made by Parliament. It has been shown in a previous paragraph how complete the adjustment is, and how closely the issues correspond with the actual expenditure.

3. The weekly published accounts are accounts of issues out of the Consolidated Fund, or, as it is otherwise called, the Exchequer, and of course do not include advances which are not made out of the Consolidated Fund. It has, however, been pointed out that current Revenue, the Treasury Chest Fund, and the Civil Contingencies Fund, are used as well as miscellaneous deposits to meet current authorized expenditure, to the temporary relief of the Consolidated Fund, and that therefore the amount of issues out of the Consolidated Fund is not a full account of the public expenditure, except at the close of the quarter or of the year.

4. There are no other funds at the disposal of the Treasury which can be applied in aid of public expenditure except those which have been named. There is no power to make such temporary use of either Savings Banks Funds or Post Office Balances.

My Lords desire that a copy of this Minute may be presented to the House of Commons.

FIRST REPORT, 1886. H.C. 83

Treasury Minute, 27 December 1886.

NAVY.

Excess caused by Uncovenanted Advances to Contractors.

8. Your Committee observe that advances to contractors not claimable under the strict conditions of their contracts still continue to be made.

In the case of advances for shipbuilding, works entitling the contractors to payment of the instalments in full not having been completed, advances to the amount of £40,900 have been made as a matter of grace on the part of the Admiralty. . . .

The Committee take exception to advances to Contractors before such advances are legally due. It appears that advances of this nature to the extent of £40,900 were made in 1884–85; and consequently these payments, being in excess of the deficit (£38,119), may be said to have constituted the necessity for an Excess Vote. Whatever may be the justification for making premature advances to Contractors when the state of the Votes will admit of their being made, my Lords hold that no such justification exists when an excess is thereby caused or likely to be caused. The reasons which lead my Lords to regard the postponement of even a matured liability as preferable to an excess apply with still greater force when the excess is caused by the discharge of liabilities which are not matured.

Application of Vote of Credit.

12. Your Committee have satisfied themselves, by evidence adduced before them, that out of the sum of £635,719 11*s.* 5*d.* expended for Operations in Egypt and the Soudan, considerably more than £19,719 11*s.* 5*d.* was expended in operations for the relief of General Gordon, and the appropriation of the sum of £19,719 11*s.* 5*d.* out of the Vote of Credit to Naval Services appears to them just.

The Comptroller and Auditor General in his report raised an objection to the amount (£19,719 11s. 5d.) transferred from the Vote of Credit to Naval Funds. His contention apparently was that, while the Vote of Credit might be applicable to meet the amount by which the Admiralty had in consequence of special (war) expenditure exceeded the total provision made by Parliament for the year (viz., £15,081), it was not applicable to meet any excess beyond that amount which might be accidentally caused by a falling off in the appropriations in aid.

The view, however, taken by this Board was that the Vote of Credit was applicable, and indeed ought to be applied, to meet any excess of Military or Naval expenditure over the sums at the disposal of the War Office or Admiralty, whether in the form of grants or of appropriations in aid, provided that expenditure was incurred for purposes for which the Vote of Credit had been granted.

The Committee supported this view. . . .

SECOND REPORT, 1886. H.C. 169.

Treasury Minute, 27 December 1886.

Civil Services.

Class I., Vote 5.—Public Buildings, Great Britain.

Treasury Sanction for New Works.

1. Your Committee think that whenever expenditure not provided for in the Estimates is, from its character or its amount, of such importance as to be shown as a new work, Treasury sanction should be, if possible, obtained before the expenditure is incurred.

The recommendation of the Committee . . . expresses what is, in fact, the recognized rule with regard to such expenditure.

The only point where any question could arise would be in deciding whether a case is one requiring submission to my Lords. In such cases of doubt, it would, of course, be advisable to seek the sanction of this Board.

VOTE 24.—SCIENCE AND ART DEPARTMENT BUILDINGS.

Re-votes.

4. Your Committee are informed that the expenditure in connexion with the Art Library was not provided for in the Estimates for 1884–85, in consequence of the expectation that the work would have been finished, and the payments for it completed within the previous financial years. Whenever circumstances permit care should be taken to obtain a re-vote.

To the First Commissioner of Works,—

You will note the expression of the opinion of the Committee that whenever circumstances permit, care should be taken to obtain a re-vote of services specifically provided for but not completed in a previous year.

In cases where circumstances do not permit provision to be made for the unfinished service in the Estimates, the sanction of my Lords should be obtained to the expenditure in the year in which such provision would otherwise have been made.

VOTE 22.—PUBLIC BUILDINGS, IRELAND.

Treasury Sanction to Unforeseen Expenditure.

6. Your Committee think it desirable that the sanction of the Treasury should be obtained by the Public Works Department of Ireland to unforeseen expenditure at an earlier period than seems to be customary with that Department; and in cases in which informal sanction is given the necessity for obtaining formal sanction as soon as practicable should be insisted on by the Treasury.

7. In the case of *ex post facto* official sanction, it might be convenient if the Comptroller and Auditor General were informed whether the Treasury were satisfied that their sanction had been asked at the earliest moment practicable.

To the Board of Works, Ireland,—

I am to desire that you will note the opinion of the Committee that greater care should be taken to obtain the formal sanction of this Board to unforeseen expenditure at the earliest possible opportunity, and that you will accordingly exercise such care.

My Lords propose to act upon the suggestion of the Committee that in cases of ex post facto *sanction being sought the Comptroller and Auditor General should be informed whether my Lords are satisfied that the application is made at the earliest moment practicable.*

CLASS IV., VOTE 1.—PUBLIC EDUCATION, ENGLAND AND WALES.

Alterations in Code.

35. Your Committee are of opinion that alterations in the Code should always have for their object the more efficient discharge of its duty by the Education Department, and should never be made for the purpose only of making an expenditure regular which had been objected to by the Comptroller and Auditor General. In this view they understand the Education Department to concur.

The Lords of the Committee of Privy Council for Education will note the opinion of the Public Accounts Committee as to the principle upon which alterations in the Code should be based.

ARMY APPROPRIATION ACCOUNT.

Supplementary Estimates; Subheads.

58. Your Committee regret that in framing the Army Supplementary Estimates for 1884–85 it was found impossible to apportion

the added sums between the different subheads defined in the ordinary Estimates. They concur in the view of the Comptroller and Auditor General that in such case the accounting under the numerous subheads of the ordinary Estimates becomes of little practical value.

My Lords share in the regret of the Committee that it was not found possible to apportion the Supplementary Estimates for 1884–85 between the different subheads of the ordinary Estimates. The principle is, of course, of great importance both for enabling Parliament to judge of the nature of the expenditure contemplated and for the efficiency of the appropriation audit. But although these two important objects are unattainable without due apportionment of the Estimate, the subsequent rendering of the account under the regular heads of Estimate is also of great importance, and my Lords would not be prepared to admit that it "becomes of little practical value" under such circumstances.

Control of Expenditure connected with Warlike Operations.

60. Your Committee concurred in the views which are expressed by the Comptroller and Auditor General in reference to expenditure connected with Warlike Operations, that such part of that expenditure as is incurred in England should receive the previous sanction of the Treasury, unless it is of such a character as in the ordinary administration of the War Office does not require such sanction. In the expenditure connected with Egypt this restriction upon the authority of the War Department seems to have been in some cases overlooked.

My Lords concur in the view expressed by the Committee in reference to the control vested in this Board over expenditure connected with Warlike Operations, viz., that such part of the expenditure as is incurred in England, and is of a character which, in the ordinary administration of the War Department, requires the sanction of their Lordships, is subject to the same rules.

VOTE 15.

Loss of Specie; Head of charge.

65. Your Committee concur in the views expressed by the Comptroller and Auditor General in reference to the loss of £440 in specie when in charge of an officer in Egypt. A loss of public money should not be charged against Subhead K. of this Vote, Compensation for Losses, but should be brought under the notice of the Treasury, and shown clearly in the statement of losses irrecoverable which accompanies the Appropriation Account. To treat the loss as one for which the officer is personally liable, and the payment as a compensation to him in respect of that liability, does not seem to your Committee to be in accordance with the intentions of Parliament in making the provision for compensation for losses under Subhead K.

The Secretary of State will note the opinion of the Committee with reference to the mode of treatment of losses of public money. My Lords concur in the view of the Committee that such losses should be brought under the notice of this Board and charged, if hope of recovery is abandoned, to losses irrecoverable.

VOTES 22 AND 23.

Discretionary Interpretation of Royal Warrants.

Audit of Pension Awards.

67. Vote 22.—Your Committee cannot regard as convenient the assumption by the Commissioners of Chelsea Hospital of discretionary powers which override the provisions of the Royal Warrants, and they

recommend that in all cases where it is found necessary in practice to depart from the course which is prescribed in these Warrants they should be previously amended.

68. Vote 23.—The Comptroller and Auditor General has called the attention of your Committee to many particulars in which the Commissioners of Chelsea Hospital in awarding pensions do not seem to observe the rates and conditions fixed by Royal Warrants given under the advice of the Secretary of State, and to cases in which the Secretary of State appears to exercise a very wide discretion in the interpretation which he puts upon the Royal Warrants themselves. It appears to your Committee that the rules and regulations under which pensions are granted should be made clear and precise, and should be strictly adhered to. If in practice it is found that such rules and regulations require alteration, it would, in the judgment of your Committee, be better to have them specifically amended, rather than to have their language interpreted in a non-natural sense at the discretion of the Secretary of State.

69. With reference to pensions which have been miscalculated and allowed in error, your Committee are informed that a special plan has now been approved by the Comptroller and Auditor General and the Treasury for examining the charge for pensions as they are sanctioned, and thus avoiding the hardship of reducing a pension once granted. They are further informed that cases of pensions allowed by the Secretary of State on a strained interpretation of the Royal Warrants will not in future occur, as special application is now made to the Treasury for the issue of all pensions which the letter of the Warrant does not cover, and the Treasury is empowered by another Warrant to sanction the issue of pensions of that kind.

My Lords understand the Secretary of State to admit the principle that, where the provisions of a Royal Warrant are found inconvenient for the administration of the Department, steps should be taken to procure the necessary alteration in the terms of the Warrant, if the practice of the Department cannot be made to conform to them, so as to avoid undue straining of the discretionary power of the Secretary of State or other authorities. Their Lordships trust that the cases referred to by the Committee in which the regulations in regard to Chelsea Hospital and other pensions have been unduly strained will be inquired into, and any irregularities which may be found to exist removed as soon as possible.

External Audit of Store Accounts.

70. As this matter is still under the consideration of the Treasury, and no definite plan has been placed before your Committee, your Committee abstain from adding anything to the observations of previous Committees.

This important question has been dealt with by my Lords in a separate Minute dated 15 November 1886.

Treasury Minute 17540/86, 15 November 1886, on the Independent Audit of Store Accounts (Report of Public Accounts Committee 1887, Appendix, p. 206).

My Lords resume consideration of the question of an independent audit of the Store Accounts of the Public Departments which has now for some years past been the subject of discussion before the Public Accounts Committee.

In the Treasury Minute of 26 November 1883, dealing with the second Report of the Public Accounts Committee of that year the then Board of Treasury, in alluding to a Report of the Treasury Officers of Accounts upon the subject of an examination of Stationery Office Store Accounts, stated that they fully concurred " in the views expressed in " the report as to the very great importance of the larger question of a " general audit of Store Accounts, which has been from time to time " adverted to, and also as to the inexpediency, in the absence of " complete information, of taking any action which might prejudge that " question, or lay down a line of policy which upon a fuller consideration " of the circumstances might be found to be untenable or unwise." The Report of the Treasury Officers of Accounts very usefully illustrated the necessity for the fullest inquiry, and most careful consideration before the Treasury should commit itself " to any scheme of which the " ultimate cost has not been well weighed against the intrinsic value of " the object to be attained." It was pointed out that an audit of store accounts might be understood to imply a process of examination similar to that of cash accounts, and to mean that the examination would accordingly assume one of the three forms described in the Report as applicable to those accounts. An extract from that Report is appended hereto, by which it will be seen that the most limited and economical of these methods would certainly involve a material increase of the clerical staff of the Comptroller and Auditor General, while in the other cases a much more serious additional cost would be incurred.*

My Lords fully recognize the force of the contention that irregularity in the disposal of public stores is equivalent to an illegal appropriation of public money, and that an audit of the expenditure of money granted by Parliament for the purchase of stores does not satisfy Parliament as to the final application of such money; that is, as to the proper disposal of the stores. It has, however, to be noticed that the circumstances of the two cases of cash and store transactions vary in very important particulars. Speaking generally as regards the far larger portion of the stores dealt with, the risks of fraudulent disposal of stores are in the very nature of the case nominal or remote, because such stores could not be so disposed of without the knowledge and connivance of a number of persons of different rank and interests; a wholesale kind of collusion which, as a matter of experience, is highly improbable in a public Department; or because the transactions admit of what is in fact an independent check within the Department.

My Lords would not be justified in asking Parliament to make provision for a scheme of external audit of store accounts which, in their opinion, would inevitably lead to a serious and permanent increase of expenditure, unless it were clearly proved that no other method was practicable.

They, however, fully concur in the opinion submitted by the Treasury Officers of Accounts that the departmental regulations should in every case be such as are calculated to secure, within the Departments, an effective check upon store transactions; and that a system of inspection from time to time, of an inexpensive character, conducted by the Comptroller and Auditor General, would afford to Parliament a sufficient guarantee for the efficiency and due enforcement of those regulations. They are, therefore, particularly glad to learn that practically the same view of a satisfactory basis for the settlement of this important matter is held by the Comptroller and Auditor General, who, in his Report to Parliament upon the Army Appropriation

* See 2. 1888, T.M., Appendix, paras. 8-13, printed at pp. 146-7.

Account for 1884–85 (*p.* 200), *makes the following observations upon the subject:—*

" Having referred to the opinion expressed by previous Committees of Public Accounts on the general question of the value of an external test audit of store accounts, it may perhaps be useful to define my own views of the advantages which might fairly be expected from such an inquiry, and of the serious matters on which it could merely exert an indirect influence.

" It would not necessarily prevent, as sometimes seems to be imagined, or even with certainty detect fraud, extravagance, or waste. The knowledge, however, that the acts of the Department and its officers with reference to store transactions would be subject to an external and wholly independent criticism, exercised on behalf of Parliament, would in my opinion operate in this direction.

" It would ensure, moreover, the attention of Parliament being drawn directly to all cases of fraud in stores which came before me.

" An Audit Department could in no case accept any further responsibility for purchases of stores than the duty of seeing that they are duly brought on charge, and are certified by the proper administrative officers as fulfilling the required standard of quality.

" It might, nevertheless, be able to call attention to subsequent losses, clearly resulting from the defective or inferior nature of stores which had been accepted and certified to be satisfactory in quality.

" Having now mentioned the subjects on which the action of a test audit of store accounts must necessarily be indirect and intermittent, I proceed to enumerate the facts which, in proportion to the extent of the test, it could with certainty elucidate.

" It could ascertain that the regulations of the Departments governing the purchase, receipt, issue, or sale of stores, were well devised and duly acted upon, and point out defects, if such should be found to exist, in the method of checking and accounting for stores.

" It could see that periodical stocktakings were duly made, and by a comparison of stocktaking returns with ledger balances, it would be in a position to certify that ledger balances were not mere paper statements, but actual facts; or, on the other hand, to call the attention of Parliament to any important deficiencies in stores which these returns might disclose.

" It could ascertain that stores were not written off as ' losses ' without the requisite sanction on the part of the Treasury, and that 'old stores' were not set apart for sale, or sold, until condemned by Boards of Survey or other duly constituted authorities.

" Finally it could inform Parliament whether the stock valuation accounts of the Army and Navy appeared to be founded on reliable data, and whether there is reasonable ground for accepting the general correctness of these accounts."

It is with great satisfaction that my Lords are able to express their general concurrence in the views thus expressed, because it is most desirable that this Board, in prescribing the regulations by which the Comptroller and Auditor General would be guided in undertaking the duties under consideration, should be in agreement with him as to the principles of the scheme to be adopted, and the particular objects which it is intended to embrace.

My Lords accept the above-quoted statement of the Comptroller and Auditor General as sufficiently defining the nature and limits of the functions to be undertaken by him in regard to Store Accounts. Very briefly stated, these functions will consist in ascertaining and reporting

(1) whether regulations exist which appear to be calculated to secure within the Departments an efficient control over the receipt and disposal of stores, and (2) whether the regulations laid down are duly enforced.

As regards the verification of balances of stores, the regulations of the Departments should provide for periodical stocktaking of all stores in charge, under conditions affording a sufficient guarantee of the existence of the certified balances; that is to say, the stock should be taken and certified by Boards of Survey, consisting of one or more responsible officers wholly independent of the Storekeeping Branch, in addition to the Storekeeper or his representative. It will not be the duty of the staff of the Comptroller and Auditor General at any time to take part in these surveys of stock. The duly certified statements of the properly constituted Boards of Survey will be accepted by the Comptroller and Auditor General for the purpose of comparison with the balances of stock remaining on charge as appearing by the stock ledgers; subject of course to any observations which the Comptroller and Auditor General may see fit to make in regard to the apparent efficiency or otherwise of the arrangements for stocktaking.

My Lords have reason to believe that in consequence of the general order and regularity which have now been established throughout the service in regard to cash accounts, the Comptroller and Auditor General will be enabled to undertake the proposed new duties with little or no addition to the present establishment of his Department; and they cannot refrain from observing that the highly satisfactory result which they trust they are right in thus anticipating, would certainly not have accompanied a much earlier or less fully considered decision upon this question.

My Lords now propose to authorize the Comptroller and Auditor General to commence with an inspection of the Store Accounts of such branches of the Army and Navy as upon consultation with the Departments he may find it convenient to select for that purpose, and also with those of the Post Office Telegraph Department and of the Prison Departments in England. My Lords will communicate this decision to the Departments named, with the request that the practical heads of the store branches may be instructed to afford facilities for the exercise of the new functions by the Comptroller and Auditor General who, my Lords do not doubt, will on his part instruct his officers to have regard, so far as is practicable, to the convenience of the Departments, in arranging for the discharge of their duties.

CHELSEA HOSPITAL.

Increase of Salaries fixed in Estimates.

72. The Commissioners of Chelsea Hospital claim to have, under 2 Will. 4. c. 53, s. 42, a discretionary power to apply unclaimed and forfeited prize money to the general services and expenses of the Hospital. They have used this power to increase a salary provided for and fixed in the Estimates. Your Committee regard the existence of such a power to alter the provisions made by Parliament for any particular service as inconvenient.

T.M. 27 December 1886.—I am to ask whether the Secretary of State has considered the question to which the Committee has called attention, of the employment of unclaimed and forfeited prize money by the Chelsea Hospital Commissioners in supplementing the provision made for the establishment by vote of Parliament.

The power thus claimed and exercised by the Commissioners, unless properly defined and limited, appears to be open to the possibility of grave abuse, because it enables them to override the provisions of the

Royal Warrant, by which the establishment is regulated. My Lords observe that in some cases payments to officers of the Establishment from this Fund are noted at the foot of Vote 22 of the Army Estimates, but that no such note appears of the payments to which the Comptroller and Auditor General calls attention in his Report upon the accounts of the Chelsea Hospital Commissioners. If such payments are allowed to be continued they should be plainly noted on the Estimates, in order that Parliament may be cognizant of the whole expense of the Establishment for which they are asked to make a grant.

NAVY APPROPRIATION ACCOUNT.

VOTE 17.

Loss on Freight of Nile Boats.

79. The attention of your Committee has been called by the Comptroller and Auditor General to the circumstances under which a loss of £240 was occasioned to the public by 35, instead of 47, Nile Boats being shipped upon a contractor's vessel. The amount is charged to Subhead F. of this Vote, Freight of Army Stores, as "Dead-freight." As the freight on the 12 boats not shipped on the contractor's vessel had to be paid to those by whom they were actually carried, this freight is charged twice over against the Vote. Your Committee concur with the Comptroller and Auditor General that such a charge should be clearly shown in a separate subhead.

My Lords concur with the Committee that the double charge for the freight of Nile boats should have been clearly shown upon the Appropriation Account. This might have been done by a note calling attention to the fact.

Treasury Letter, 22 October 1886 to Admiralty (Navy Appropriation Account, 1885–86, p. 131):—The Lords Commissioners of Her Majesty's Treasury . . . gather it to be the view of the Public Accounts Committee, from paragraph 60 of their Second Report, 1881, and paragraph 79 of their Second Report, 1886, that any payment by way of forfeit or compensation for loss to a contractor, or any fruitless payment for goods not supplied or for freight of goods not carried, should be made evident on the face of the Appropriation Account, the object being to distinguish genuine payments for goods supplied or service rendered from payments that are nugatory and represent a dead loss to the public.

This object, however, may be attained by means of a note on the Appropriation Account, as well as by opening a separate subhead; and my Lords think that the former expedient might suffice in many cases where the amount involved is not large (say not over £300), and the circumstances are of an ordinary character not involving fraud or default on the part of officers or contractors.

REPORT, 1887. H.C. 210.

Treasury Minute, 23 January 1888.*

CIVIL SERVICES.

CLASS I., VOTE 20.—PUBLIC BUILDINGS, IRELAND.

Expenditure charged against Extra Receipts.

13. The Comptroller and Auditor General reports that a sum of £20 was paid out of Exchequer Extra Receipts in compromise of an

* This minute was not printed as an Appendix to the P.A.C. Reports, but appeared in Vol. I. of the Handbook, H.C. 86, 1888.

action-at-law. It appears that this payment was authorized by the Treasury, but not the way in which it was charged. Your Committee agree with the Comptroller and Auditor General that expenditure should not be charged against Extra Receipts.

To the Board of Works, Ireland,—

You will take note of the disapproval expressed by the Committee of the charge of a payment against Extra Receipts instead of to the Vote of Parliament.

CLASS II., VOTE 1.—HOUSE OF LORDS OFFICES.

Superannuation Allowances paid from Fee Fund.

14. The Extra Receipts realized in the year 1885–86 amounted to £29,367 13*s.* 6*d.*, from which was deducted £1,192 1*s.* 4*d.*, to provide for the payment of the amount by which the superannuation allowances of the House of Lords exceeded the interest on the invested Fee Fund, out of which fund these allowances are paid. This practice is an exception to the general rule, that Extra Receipts are to be paid into the Exchequer. The Treasury exercises no control over this Vote, but the House of Lords, as a rule, adopt the provisions of the Superannuation Act, although these superannuations which are charged on the Fee Fund are not voted, like other superannuations, by the House of Commons.*

VOTE 24.—STATIONERY AND PRINTING.

Treasury sanction for Special Expenditure.

28. Under Subhead D., " Incidental Expenses," is included the sum of £268 15*s.* 11*d.* for a gas engine, for which the sanction of the Treasury should have been obtained. The Comptroller of the Stationery Office explains that he was not aware that special authority was required for this charge, being under the impression that his general authority was sufficient.

You will note the observation of the Committee, that the sanction of this Board should have been obtained to the expenditure of £268 15s. 11d. upon a gas engine. A charge so considerable in amount and special in nature should not have been treated as an ordinary " incidental expense."

VOTE 28.—SECRET SERVICE.

Certificates of Expenditure.

35. The documents transmitted to the Comptroller and Auditor General in support of this Vote consist of certified statements of the amount expended, given by the officers of State under whose directions the payments were made. The Comptroller and Auditor General reports that he is unable to accept these statements as satisfactory proof of payment under the provisions of the Exchequer and Audit Act, and is consequently unable to certify the correctness of the account.

36. Your Committee consider that the statements furnished should contain the personal assurance of the responsible ministers of the Crown who are entrusted with the expenditure of the Vote, that the money has been properly spent. From the circumstances of the Vote they do not think it was the intention of Parliament that further particulars should be given.

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* A memorandum explaining the origin and constitution of the House of Lords Fee Fund is appended to the Committee's Report at p. 223.

The documents now furnished in support of the expenditure from this Vote are certified statements of the amount expended signed by the responsible Ministers entrusted with the expenditure. My Lords understand the Committee to be of opinion that, besides stating the amount actually expended, the certificate should also state that it has been properly expended. My Lords see no objection to such an addition to the certificate, since it merely formulates what is already assumed when a Minister of the Crown makes himself personally responsible for the expenditure, and steps will be taken to frame a certificate which will meet the wishes of the Committee.

CLASS IV., VOTE 2.—SCIENCE AND ART DEPARTMENT.

Personal Liability of Accounting Officer.

55. The Comptroller and Auditor General calls attention to a sum of £12 10*s.* 1*d.* incurred without Treasury sanction. It appears that this sum represents the amount by which an authorized expenditure limited to £200 for the decoration of the corridor of the refreshment room at the South Kensington Museum was exceeded, and that the Treasury has refused to give its covering sanction to this excess pending a reference of the case to the Committee. While they hesitate, after hearing the explanation of the Accounting Officer, to recommend the disallowance of the sum, your Committee desire to place it on record that in any future case of this kind the Accounting Officer must be prepared to be held personally liable for disregarding so well known a financial regulation.

Though the Committee pass the sum of £12 10s. 1d., which was paid in excess of Treasury authority for decoration of a corridor in the South Kensington Museum, and which the Comptroller and Auditor General declined to admit into the account, special attention should be paid to their remarks on the irregularity involved in such a payment, and the consequences of it.

VOTE 11.—PUPLIC EDUCATION, SCOTLAND.

Salary of Officers transferred.

57. The constitution of a separate office for Scottish affairs having taken place last year, the establishment of a separate clerical staff was then for the first time organized. It would appear that Mr. Cory's salary was for some time charged to the Scotch Vote after he had ceased to do work connected with the Scotch Department, and while he was employed in the English Education Office, and your Committee are of opinion that for such service his salary should have been charged to the English Department. A similar remark applies to the cases of Messrs. Rankine and Severn.

You will observe that the Committee concur in the Report of the Comptroller and Auditor General, that the salaries of the officials who had ceased to do work in the Scotch Department, should not have been charged to the Scotch Vote after their transfer to the English Department. It would not be possible now without great inconvenience to adjust the matter between the English and Scotch Votes, but notice should be taken of the decision on the question of principle.

VOTE 14.—PUBLIC EDUCATION, IRELAND.

Postponement of Payment.

60. Under Subhead G. has been included a payment of £800 to a contractor, on account of books and other requisites to the value of

£2,049· 16*s.* 2*d.* The whole of the goods were received into store by the Education Department during the year 1885-86, but payment of a portion of the value, viz., £1,249 16*s.* 2*d.*, was deferred till 1886-87. The Comptroller and Auditor General observes that the plan of postponing expenditure for stores to the year in which it may be considered due, is not in accordance with financial regulations. The Treasury agree that the payment should have been made, provided that such payment fell due in ordinary course, and that it caused no excess upon the Vote.

CLASS V., VOTE 6.—SOUTH AFRICA AND ST. HELENA.

Pay Receipts.

66. As regards a sum of £114 8*s.* 6*d.* which was paid to 13 troopers for the month of October 1885, the Comptroller and Auditor General remarks that no receipts have been furnished. It appears from the remarks made by the Comptroller and Auditor General on certain charges included in the account for troopers, that it is the practice of the paymaster to take credit in his account for the full amount as shown to be due by the pay list, instead of only charging the actual payments made. The Comptroller and Auditor General objects to the admission of payments of this kind, based on the certificates of the paymaster, and not vouched for by the receipts of the men. Such certificates have had to be admitted in the case of the Army and Navy pay, but your Committee agree with him that it is undesirable to extend the practice, unless it be clearly proved that without such extension great difficulty and inconvenience would arise.

You will note the objection of the Committee to the adoption, in payment of troopers in Bechuanaland, of the practice of admitting the certificates of the paymaster unvouched by the receipts of the men. Some more satisfactory system must therefore be, if possible, adopted.

CLASS VI., VOTE 1.—SUPERANNUATION AND RETIRED ALLOWANCES.

Extra Statutory Awards.

68. Last year the Committee of Public Accounts commented on the claim put forward by the Treasury to a discretionary power in dealing with superannuation and retired allowances, and reported that "it is "Parliament and not the Treasury which ought to decide whether the "circumstances of any particular case are such as to require exceptional "treatment and it appears to your Committee that, in straining the law "for the purpose of meeting the exigencies of any particular case, the "Treasury is usurping the functions of the Legislature." (Second Report, 1886, para. 46.)

69. Your Committee are informed that a Minute has been drawn up by the Treasury dealing with this subject. The Treasury state that their only desire is to administer the Superannuation Acts according to the strict letter of the law with due regard to the interests of economy on the one hand and the equitable claims of individuals on the other; and a Bill has been prepared (which will be introduced into Parliament forthwith) for the purpose of legalizing so much of the existing practice as is now extra-statutory and can be defined by statute without danger to the public interests.

In deference to the views expressed by the Committee when the subject of the administration of the Superannuation Acts was under discussion, my Lords caused a Bill to be introduced into Parliament

giving the Treasury statutable authority to deal with certain cases which were not within the provisions of the existing Acts, and which had hitherto been met by the exercise of an extra-statutory discretion.

This Bill has now become law as 50 & 51 Vict. c. 67, and henceforward the Treasury, in the award of pensions or gratuities, will regard themselves as pledged to Parliament not to exceed in any case the powers conferred on them by Statute.

Treasury Warrant not Retrospective.

72. . . . The point as to whether the sum of £57 0s. 9*d.* is a proper charge, turns on the question whether a retrospective effect could be given to a Treasury Warrant or not. The Treasury now agree with the Comptroller and Auditor General that it was not competent for them to give retrospective effect to that Warrant. . . .

73. Your Committee are of opinion that in future the strict legal interpretation of the Warrant, and the section of the Act under which it is issued, should be adhered to.

Service before Issue of Civil Service Certificate.

78. The Comptroller and Auditor General calls attention to the case of certain officers having been allowed to count for pension their service prior to the date of the issue of their certificate. Your Committee presume that this subject will be dealt with by legislation. . . .

The Superannuation Act, 1887, *sec.* 3, *provides that the Treasury may, if, in their opinion, any special circumstances of the case warrant such a course, direct that temporary service shall be included in the calculation of pension if continuous with subsequent established service.*

REVENUE DEPARTMENTS.

VOTE 3.—POST OFFICE.

Deposits credited as Extra Receipts.

84. With reference to the deposit of sums varying from £8 to £12, payable on the establishment of a money order office, which are now paid into Miscellaneous Receipts, but which up to 1875 were carried to a suspense account, the Comptroller and Auditor General and the Treasury, though preferring the latter mode of procedure, raise no further objection, provided that a reference be given to the date of the deposit in all cases of repayment, so that it may be possible to trace the transaction and see that it is correct. This condition has been assented to on the part of the Post Office.

VOTE 5.—POSTAL TELEGRAPHS.

Salary from two Votes.

85. The Comptroller and Auditor General calls attention to the fact that some officials of the Telegraph Department, engaged on duty with the army in Egypt, have been granted leave of absence with full pay from the Post Office, while at the same time they have been receiving salaries from the War Office, and that Treasury sanction had not been obtained. Your Committee understand that the Treasury are now satisfied.

My Lords do not further withhold their sanction to the arrangement made for payment of the salary of Mr. Oatway while on duty as Inspector of Army Telegraphs in Egypt; but they consider that so exceptional an arrangement should not have been made without previous reference to this Board.

ARMY.

Appropriations in Aid in Excess of Estimate.

88. The Comptroller and Auditor General points out that the excess realized in Appropriations in Aid over the estimated amount, viz., £306,661 7*s.* 2*d.*, has been treated in the Appropriation Account as available against Army Expenditure, whereas in his judgment any excess of receipts beyond the amount estimated should either be deducted from the Grant out of the Exchequer authorized by Parliament, or should be paid into the Exchequer if the grant has been already issued before the excess arises; and he urged that though in this instance the financial result may be the same, it is important, as a matter of principle, to show clearly that a Department cannot look to excess receipts under Appropriations in Aid to cover deficits on their Votes. Your Committee are informed, however, that it is quite understood both by the Treasury and at the War Office, that the spending power of a Department is strictly limited to the total of the Exchequer grants and estimated receipts, and that a vote must in every case be taken for any additional expenditure, even though the excess of receipts realized over the estimate is sufficient to cover such additional expenditure, and the Comptroller and Auditor General has expressed himself satisfied on the understanding that this course is laid down by Minute.

In paragraph 88 *the Committee deal with the question of the mode of treating as Appropriations in Aid of expenditure receipts realized in excess of the estimate.*

The Army receipts in 1885-86 *exceeded the amount which they had been estimated to yield by* £306,661 7*s.* 2*d.; and the Comptroller and Auditor General took exception to the application of that excess in aid of Army expenditure on the ground that the arrangement had the appearance of conflicting with the rule laid down in the Treasury Minute of* 1 *February* 1882.

That rule was that "the total amount of extra receipts which may "be applied in aid of the gross expenditure in any year is to be strictly "limited by the total amount of the estimated extra receipts as shown in "the estimates for the year, and that any excess of actual receipts "beyond the total of the estimated receipts will when ascertained be "surrendered in the same manner as ascertained surpluses on grants "are now surrendered." In other words, the spending power of a Department is under that rule limited to the total amount of Exchequer grants for the year, plus *the estimated amount of extra receipts; and accordingly, if the extra receipts which are realized exceed the estimate, the Exchequer grants otherwise at the disposal of the Department have to be diminished by the precise amount of such excess.*

As a matter of fact, this rule was faithfully observed; but the application of it was rendered somewhat more complicated by reason of there being a Vote of Credit in 1885-86. *The effect of that Vote was that the spending power of the Army and Navy was increased; and so long as the Department did not spend more than the estimated amount of extra receipts in addition to the Exchequer grants and the Vote of Credit placed at its disposal, it had not at its command a greater sum than had been contemplated by Parliament. The amount by which extra receipts had exceeded the estimates had of course to be abated from the*

Exchequer grants; and this step was taken in the Army Accounts of 1885-86. It was immaterial whether the abatement was made from the Ordinary Grants, or from the Vote of Credit which was available to supplement those grants; and, as the Ordinary Grant has always first to be exhausted before resort is had to an issue out of the Vote of Credit, the abatement was made from the Vote of Credit, thereby securing a more simple and easily intelligible statement of account.*

My Lords note that the Committee and the Comptroller and Auditor General were satisfied with the explanation offered to them when the accounts were being reviewed by the Committee; but, as it is most important that the position of spending Departments as regards funds at their disposal should be defined beyond the possibility of doubt, my Lords think it may be well to state afresh the regulations affecting Departments which appropriate extra receipts in aid of their expenditure.

1. *The spending power of a Department is strictly limited to the total of Exchequer grants and estimated extra receipts, which together represent the gross expenditure authorized by Parliament.*

Thus: if the grants be £10,000,000 and the estimated amount of extra receipts be £1,000,000, the Department cannot spend more than £11,000,000 in all.

2. *If the extra receipts realize more than the Estimate, and Parliament has not authorized any increase of expenditure, then the excess has to be surrendered as a surplus.*

Thus: if the extra receipts have realized £1,200,000 as against an estimate of £1,000,000 the amount available out of grants is reduced to £9,800,000, and the balance of £200,000 has to be surrendered.

3. *When it is proposed to incur a larger gross expenditure than has been provided for in the original estimate, then any excess of extra receipts over the estimate may be applied to meet such further expenditure, but the authority of Parliament has to be obtained for the application of the excess receipts just as much as for a further grant. There has to be presented a supplemental estimate, in which, as in the original estimate, the gross expenditure requiring sanction is shown, and the excess receipts are abated. If the excess receipts are less than the gross expenditure, the full amount is abated and the balance has to be voted; if the excess receipts are equal to or more than the gross expenditure, so much of them is abated as leaves a nominal sum to be voted, in order that the authority of Parliament may be duly recorded.*

Thus: the gross expenditure to be incurred is assumed to be increased from £11,000,000 to £11,500,000.

(a) *If the extra receipts are estimated to yield £1,300,000 as against the original estimate of £1,000,000, Parliament will be asked to meet the supplemental expenditure of £500,000 by allowing the Department to apply its estimated excess receipts of £300,000, and by voting £200,000.*

(b) *If the extra receipts are estimated to yield £1,500,000 or £1,600,000 as against the original estimate of £1,000,000, Parliament will be asked to meet the supplemental expenditure of £500,000 by allowing the Department to apply as much as (say) £499,900 of its estimated excess receipts, and by voting the nominal*

* This procedure was not adopted with the Votes of Credit of 1914-1919, see page 571.

balance of £100; the balance still remaining of estimated excess receipts (viz., £100 or £100,100, as the case may be) being treated as a surplus on the grants of the year, which has to be surrendered.

Surrender of Surpluses.

Having had frequently to refer to surrenders in this explanation about the appropriation of extra receipts, my Lords think that it may be useful to recite the rule which governs the surrender of ordinary surpluses on grants, and to show that the application of the same rule to the treatment of excess extra receipts is strictly consistent in principle and equally effective for the object in view.

Surpluses for unexpended balances of grants may be surrendered in one of two ways: (1) *They may be written off from current grants for the same service unissued from the Exchequer, the power of the Department to draw upon the Exchequer being thereby* pro tanto *reduced; or* (2) *They may be paid into the Exchequer in cash.*

The last of these methods is extremely inexpedient, because it involves the inclusion in the same accounts, both as revenue and as expenditure, of identical sums, which do not in any true sense represent receipt or disbursement of public money, but merely cancel each other; and it consequently leads to misleading and practically fictitious statements of the public revenue and expenditure. Therefore, all surpluses of grants are, as a rule, written off from the amount of grants unissued out of the Exchequer.

As, however, a surplus is not precisely ascertained until considerably after the close of the year upon which it arises, and as therefore it is not practically possible to retain in the Exchequer an equivalent balance of the grant of that year, it necessarily follows that the surplus has, as a rule, to be written off wholly or in part from a grant which Parliament has voted for the service of the following year.

So far as the ultimate spending power of the Department is concerned, the result is of course the same as if an actual payment were made to the Exchequer of the amount issued therefrom in excess of the ascertained final expenditure, and it makes no difference whether the spending power of a Department is curtailed by the amount of the surrender in the next succeeding year or in a subsequent year. Moreover, the system conduces largely to economy of balances; because, if the balances issued from the Exchequer and unspent at the end of a year were left in the Paymaster General's hands unavailable for use, pending the completion of the Departmental Accounts, further issues would necessarily have to be made from the Exchequer grants of the new year to meet the current expenditure in that year.

The only occasion when a cash payment to the Exchequer of a surplus becomes unavoidable is when a Vote for a particular service ceases, so that no grant exists out of which the surrender can be made. An instance of this occurred in the case of the Vote for new Admiralty and War Office buildings in 1884–85. *Part of the surplus in this Vote was written off against the unissued balances of the same Vote; further sums were written off the unissued balances of the Votes of* 1885–86 *and* 1886–87; *and, no Vote having been taken for the current year, the remainder had to be disposed of by a cash payment into the Exchequer.*

As regards sums received in excess of estimated Appropriations in Aid, it is obvious that they are surpluses in another form. They are accordingly written off in the same way as ordinary surpluses on grants, and with the same result of limiting the spending power of the Department within the sums authorized by Parliament, inasmuch as, if they

*could have been anticipated, the Exchequer grants would have been reduced by precisely so much. To adopt the alternative of paying to the Exchequer in cash the excess of receipts over the estimated Appropriations in Aid, in place of surrendering them out of the grants, would be to revive and perpetuate in a minor degree the very objections and anomalies which the scheme of appropriating Army and Navy extra receipts in aid of expenditure was designed and intended to remove.**

VOTE 10, SUBHEAD B.—COST OF FORAGE.

Loss on Re-Sale.

94. The Comptroller and Auditor General calls attention to a loss of £1,091, being the difference between the amount paid for purchase of oats charged to " Special Preparations," and the amount realized by their sale, and considers that this should have been noted in the Appropriation Account. Your Committee concur with the Comptroller and Auditor General in this opinion.

You will observe that the Committee concur with the Comptroller and Auditor General in opinion that the loss of £1,091 in connexion with the purchase of oats should have been noted in the Appropriation Account.

EXPENSES OF CANADIAN VOYAGEURS IN VISITING THE PYRAMIDS.

Treasury Sanction withheld.

95. A sum of £176 17*s.* 9*d.*, the expense incurred in a visit of the Canadian Voyageurs to the Pyramids, under the sanction of Lord Wolseley, is reported by the Comptroller and Auditor General as irregular, the Treasury having declined to give their covering sanction.

96. The Treasury were no doubt fully entitled to withhold their sanction to so exceptional an expenditure for which authority had not been asked, and authorities entrusted with public money must remember that in ordering any unusual and exceptional expenditure on their own responsibility they incur a personal liability. As regards the particular case to which attention has been directed, your Committee sanction the expenditure under the circumstances.

The Committee allow the expenditure incurred in a visit of the Canadian Voyageurs to the Pyramids. The sum of £176 17s. 9d. will therefore remain a charge upon the Vote; but it should be impressed upon those in the Army who are entrusted with public money that, if they order unusual expenditure on their own responsibility, they incur a personal liability to which all officers of whatever rank are equally subject.

NAVY.

VOTE 5.—SUBHEAD P.

Claim and Counter-claim.

108. Under this subhead the Comptroller and Auditor General states that the surveying vessel the " Paluma " was lent for certain purposes to the Imperial Government by the Colonial Government, under which the Admiralty are liable to the Colonial Government for the payment of £1,250 per annum. This has been charged as a payment, and the Comptroller and Auditor General contends that the mere placing of a sum such as this to the credit of an account in the Admiralty ledger cannot be considered as equivalent to a cash payment. Certain claims

* See now P.A.C. 2. 1925. 8. at p. 686.

existing at this time against the Government of Queensland of a larger amount, it was considered legitimate to make the transfer entry objected to, reducing the amount of the claim on the Queensland Government, and charging the amount against Subhead P. of Vote 5 for the year 1885–86, thus making the payment by way of deduction. The Treasury approve of the course pursued by the Admiralty, and consider it to be regular to settle such a claim and counter-claim by the payment of the net sum.

Vote of Credit.

113. Your Committee have given very careful consideration to the questions arising out of the expenditure on the Vote of Credit for Special War Preparations and Charges in Egypt and the Soudan.

114. In doing so they have had the advantage of the deliberations and decisions of former Committees on Votes of Credit, and are glad to find themselves able to adhere to the views thus expressed as to the limitations and restrictions which should govern this kind of expenditure, which, from its nature, must be exceptional, and over which it is difficult to maintain the ordinary rules laid down for securing strict appropriation.

115. As questions relating to the Vote of Credit occur on both Army and Navy accounts, your Committee have thought it desirable to deal with the reports on the two accounts together so far as this part of the expenditure is concerned.

116. The remarks of the Comptroller and Auditor General on this subject may be divided into three heads:—

> In the first place, he mentions certain branches of expenditure in connexion with the Navy, in reference to which opportunity would seem to have existed, after the apprehension of war had passed away, to modify the arrangements in the interest of economy.
>
> In the second place, he observes that neither the War Office nor the Admiralty prepared a general scheme of expenditure in accordance with the Treasury Minute of 1880 [*see p. 95*], nor were the issues demanded by the War Office and Admiralty accompanied by any detailed explanation as required by the Treasury Minute; he is of opinion that if this had been done it would have furnished his Department with valuable information, and probably led to considerable economy.
>
> Thirdly, he feels it incumbent on him to state that, in his judgment, there has been a tendency both by the War Office and the Admiralty to consider the Vote of Credit "too much in "the light of a sum placed at their disposal by Parliament to "meet any expenditure unprovided for in the ordinary Votes "which, in a time of emergency, it might seem desirable to "incur with the view of increasing generally the effective strength "of the Navy, irrespective of clear or direct connexion with the "'Special Preparations,' or the particular Egyptian expenditure "for which alone it was, in my opinion, intended to provide."

117. With reference to the first question, your Committee are of opinion that the Comptroller and Auditor General, so far as was shown by the evidence before him, was justified in his doubt whether the Admiralty had in all cases watched the expenditure under the Vote of Credit with sufficient vigilance; whether, for instance, in the case of certain cruisers which had been taken up for six months (of which but a

small part had elapsed when the apprehension of war had ceased), it might not have been possible to make some arrangement with the owners by which a saving might have been effected.

118. The Admiralty, however, have explained to your Committee the particulars of these cases, and the Comptroller and Auditor General admits that if the information which has now been given had been furnished in the first instance some of his criticisms would have been unnecessary, or at any rate sensibly modified. He observes, however, that he can only deal in his reports with the facts, so far as they are disclosed in the explanations which are given in reply to his inquiries, and it is on all accounts desirable that he should be furnished with the fullest possible information.

119. As regards the second contention of the Comptroller and Auditor General, the Admiralty and War Office appear to have considered that the basis on which the Vote was granted by Parliament constituted such a scheme of expenditure as was indicated in the Treasury Minute. In this view the Treasury concurs, and at the time when the Vote of Credit was originally laid before Parliament it might have been difficult, perhaps even impossible, to give more detailed information. Your Committee consider, however, that at a later period this might and should have been done, and that the Treasury might have made earlier and more urgent representations to the two Departments on the importance of furnishing sufficient information.

120. They are also of opinion that when peace was practically assured it was incumbent on the First Lord of the Admiralty and the Secretary of State for War to issue distinct orders that no fresh expenditure should on any account be incurred; unless it was clearly the necessary consequence of previous special expenditure.

121. Your Committee concur with the Report of the Public Accounts Committee of 1880, that in all cases of special service, when the Department can make a fairly definite estimate of the service, and of the general heads under which the proposed expenditure will mainly fall, it is desirable that a Supplementary Estimate should be presented, but should Ministers resort to a Vote of Credit your Committee recommend that the spending Departments should obey as strictly as possible the directions of the Treasury Minute of February 1880, as regards both the general scheme of expenditure to be submitted at the outset, or at least as soon as practicable, and the explanations by which demands from time to time for issues required by the Departments should be accompanied.

122. As regards the third question, the Comptroller and Auditor General adduces various items of expenditure, the advisability of which he does not question, but some of which, in his opinion, had no special reference to the apprehension of war, while others were not even undertaken until long after all apprehension had passed away.

123. Your Committee entirely concur in the decision of the Public Accounts Committee of 1879, endorsed by that of 1880, "that, "however wide may be the terms of the Vote of Credit, the charge "against it must not exceed the aggregate of the sums which the "spending Departments can identify as directly occasioned by or for "the event or object to meet which the vote has been taken."

124. Some difficulty, however, arises in coming to a conclusion as to how far this rule has been observed, from the conflicting views held as to what were the governing conditions under which expenditure might be charged to a Vote of Credit granted for Special War Preparations.

125. The Comptroller and Auditor General considers that there are two conditions practically necessary; that the expenditure should relate to the special preparations, and that it should have been ordered before the danger of war was virtually at an end.

126. The Treasury, while concurring in this view, would include expenditure of a clearly consequential nature, such as the sheds for torpedo boats purchased previously from the Vote of Credit.

127. The view of the Admiralty does not seem to be uniform. The Director of Works stated that he had been under the impression, which prevailed generally in the Department, that there were no limitations as to the time at which the expenditure should cease to be chargeable to the Vote of Credit.

128. Your Committee gathers from the evidence given by the Accountant General of the Army (*see* Q. 2,003), and from the large amount of expenditure marked to the Vote of Credit at the conclusion of the year, that this view also prevailed to a considerable extent in the War Office.

129. Under these circumstances your Committee, while not questioning the propriety of the expenditure, or the fact that in incurring it the Departments were, from their point of view, acting in the interests of the public service, cannot but come to the conclusion that the Vote of Credit was, as stated by the Comptroller and Auditor General, considered by them too much in the light of a sum placed at their disposal by Parliament to meet any expenditure unprovided for in the ordinary Votes which, in a time of emergency, it might seem desirable to incur, irrespective of clear or direct connexion with the "Special Preparations," or the particular expenditure for which alone it was intended to provide.

The Committee consider that more information as regards the details of proposed expenditure out of the Vote might have been furnished subsequently to the preparation of the Estimate presented to Parliament, and that it was the duty of this Board to require such additional information from the Department. Their Lordships desire that note may be taken in the Department of this expression of the opinion of the Committee, and that it may be borne in mind for guidance in the future.

By way of laying down afresh the rules which should govern the administration of a Vote of Credit my Lords propose to issue a separate Minute embodying their former directions, with such amendments as further experience and the criticisms of the Committee appear to suggest. [No Minute was issued, Tr. 847/88.]

SECOND REPORT, 1888. H.C. 317.

Treasury Minute, 10 January 1889.

CIVIL SERVICES.

CLASS I., VOTE 1.—ROYAL PALACES.

Gratuities not covered by Wording of Grant.

1. Your Committee observe that under this Vote, as well as under Vote 15 [*Class II.*] gratuities have been given which are not strictly covered by the wording of the Grant. They think that the sum may be admitted as charged, but they rely on the Comptroller and Auditor General to bring all such cases to notice.

The Committee do not object to the charge to Building Votes of gratuities paid in the circumstances which existed in the cases before them. No alteration, therefore, need be made in the present practice on this point; but such payments should be distinctly noted in the account.

VOTE 18.—PETERHEAD HARBOUR.

Purchase of Land.

6. The Comptroller and Auditor General comments on a payment for certain land required for Peterhead Harbour, the purchase-money for which was lodged in a bank on the last day of the financial year. Your Committee concur with the Comptroller and Auditor General that such a payment should not be made a charge against a Vote, unless it is "practically final and irrevocable." On inquiry they are assured that the deposit made in respect of Peterhead Harbour, under legal advice, constituted, for all practical purposes, a final payment, and as such may be admitted into the account.

As the payment for certain land, the purchase of which did not appear to be finally concluded, has been admitted by the Committee, it only remains for the Admiralty and Treasury to take note of the general principle upon which the Committee have proceeded. My Lords conceive that the determining consideration in the case was the legal opinion that "it was no longer open to either party to recede from "their bargain."

CLASS II., VOTE 28.—SECRET SERVICE.

Certificates of Ministers.

15. With reference to the Secret Service Money, the Treasury have proposed that Ministers who are responsible for its expenditure should be required to give a new form of certificate. It is as follows: "I "hereby certify that the amount actually expended by me, or under my "directions, for Secret Service in the year ended 31 March 18 "was £ ; and that the balance in my hands on the said "31 March was £ ; and I further solemnly declare that the "interests of the Public Service required that the above payments "should be made out of the Secret Service Fund, and that they were "properly so made."

16. The Comptroller and Auditor General has not yet expressed his opinion on the sufficiency of the new form; but, considering the nature of the Service on which the expenditure is incurred, your Committee are disposed to consider that the certificate, as amended, answers all reasonable Parliamentary requirements.

Their Lordships observe with satisfaction that the Committee consider that the amended certificate proposed by this Board "answers all reasonable Parliamentary requirements." They have not yet been favoured with any expression of the views of the Comptroller and Auditor General upon the point, but they may observe that the certificates for the year 1887–88 have been rendered in the form approved by the Committee.

CLASS III., VOTE 28.—COUNTY COURT OFFICERS, &C., IRELAND.

Civil Service Certificates.

24. The Comptroller and Auditor General raises a question whether it is necessary for Clerks of the Crown and Peace in Ireland, appointed under the provisions of 40 & 41 Vict. c. 56, to obtain Civil Service

Certificates in order to qualify them for pensions on retirement. It is urged on the one hand, that as the Superannuation Act of 1859 only authorizes the grant of pensions to persons who have served " in an established capacity in the permanent Civil Service of the State," and as, according to Section 17 of the Act, no person is to be deemed to have " served in the permanent Civil Service of the State, unless such " person . . . . has been admitted into the Civil Service *with a* " *certificate from the Civil Service Commissioners*," it follows that such persons as the Clerks of the Crown and Peace, who do not hold certificates, fail to conform with the requirements of the Act. On the other hand, it may be held that, while that section does for the purpose of the Act define permanent Civil Service, yet the Act, under which the Clerks in question are appointed, provides a new, or rather a supplementary definition which may be considered to override the definition in the earlier Act. As, however, the point raised by the Comptroller and Auditor General seems to be open to some doubt, your Committee think it would be desirable that the position of these officers as regards their future claim to pensions should be determined, possibly by a reference to the Law Officers.

In accordance with the view expressed by the Committee, my Lords have thought it expedient to obtain an authoritative legal opinion on the question raised by the Comptroller and Auditor General whether Clerks of the Crown and Peace are, as at present appointed, qualified to receive pensions, before that question arises in a practical form; and they are advised by the Law Officers of the Crown that there is no necessity for the officers in question to obtain Civil Service Certificates in order to qualify for pension on retirement.

CLASS IV., VOTE 10.—PUBLIC EDUCATION, SCOTLAND.

Additional Grant; School-rate.

34. It also appears that in cases where the school-rate exceeds 3*d.* in the pound it is the practice of the Scotch Education Department to ignore the " whole produce " of the whole actual rate levied, and to take as the basis of calculation the estimated produce of that portion of the actual rate which is equivalent to 3*d.* in the pound only.

35. The Comptroller and Auditor General expresses doubts as to the legality of this, and the opinion of the Scotch Law Officers has consequently been taken. They regard the question as one of some difficulty, but are disposed to consider that the practice of the Department is not at variance with the statute. Your Committee consider therefore that the payment may be admitted.

The Committee consider that payment may be admitted in the cases where you have ignored the excess of the school rate over 3d. in the £., and the amounts queried by the Comptroller and Auditor General will therefore be finally charged to the Vote.

CLASS VI., VOTE 1.—SUPERANNUATION AND RETIRED ALLOWANCES.

Extra-Statutory Awards.

36. Your Committee reported last year that a Bill had been prepared for the purpose of legalizing so much of the existing practice as was extra-statutory, and could be defined by statute without danger to the public service. This Bill has now become law, and the Treasury have given notice that their future action in these matters will be strictly governed by the undertaking given that " if the extended powers " thereby created were conferred upon them all further exercise of

" discretion would cease, and the Treasury would thenceforth, in " granting pensions and gratuities, confine itself to its legal powers." This undertaking is satisfactory to your Committee.

REVENUE DEPARTMENTS.

VOTE 1.—CUSTOMS.

Superannuation; Service in more than one Department.

38. The Comptroller and Auditor General raises a question with reference to the apportionment of Superannuation Allowances. A similar question was raised under Class VI., Vote 1. The Treasury are of opinion that, when an officer has served in more than one Department, the whole of his pension may be charged to the Vote for Pensions of the Department in which he was serving at the time of his retirement. Your Committee admit that this arrangement is an administrative convenience, and think that it may be adopted in all ordinary cases; while cases, in which the amount involved is large, might be met by a cross-reference to the different Pension Votes.

Let a note be taken in the Superannuation Department of the opinion expressed in paragaph 38 of the Report, with regard to pensions earned by service in two Departments whose non-effective charge falls under different Votes. Cases such as are contemplated by the Committee " in which the amount involved is large " are not likely to occur very frequently, and there should be no difficulty in arranging that a note respecting each of them should be added to the non-effective Vote to which the pension is charged.

APPROPRIATION ACCOUNTS; DATE OF DELIVERY.

51. The attention of your Committee has been called to the late delivery of some of the Appropriation Accounts. They concur with the Comptroller and Auditor General that it is an important matter that the audit should follow as closely as possible upon the transactions of the account, and that with this view every effort should be made to expedite the delivery of the periodical and Appropriation Accounts.

My Lords . . . direct that the following circular be addressed to the various accounting officers of Civil Votes.

Their Lordships agree with the views expressed by the Comptroller and Auditor General and Public Accounts Committee, and hope that they may count upon your co-operation in giving effect to those views. They do not propose at present to lay down any definite rule for the delivery of the Appropriation Accounts before the statutory date of 30 November, but they think that the Appropriation Accounts of an ordinary Civil Vote, containing no payments outside the United Kingdom, might readily be rendered, in the absence of special circumstances, by 30 September; and they request that, subject to these qualifications, you will endeavour to render the account(s) of the Vote(s) for which you are responsible as nearly as possible by that date in the year 1889.

This calculation proceeds on the assumption that the Exchequer and Audit Department will accelerate their examination of the final monthly accounts, but upon this point my Lords have no doubt of the ready co-operation of the Comptroller and Auditor General.

ARMY APPROPRIATION ACCOUNT.

Paymasters' Accounts.—Inspection of Cash Balances.

57. With reference to the deficiency of £4,249 in the accounts of the late Paymaster of the Royal Engineers at Chatham, which was the result

of the frauds commenced some years ago, it appears that the balances shown in the Account rendered to the War Office were not checked with those presented to the inspector. Your Committee are surprised that no such comparison should have been made. They regard it as essential to secure an effective check, and they understand that it will be instituted in future. . . .

Their Lordships . . . would commend the remarks of the Committee to the serious consideration of the Secretary of State. The system of monthly accounts, already referred to, will apparently facilitate periodical inspection, and the checking of paymasters' actual balances against their returns to your Department.

Funeral Expenses.—Payment contrary to Statute.

61. Charges on the Vote are at present raised for the funeral expenses of Warrant Officers, Non-commissioned Officers, and Soldiers, whether or not they leave property adequate, or partly adequate, to discharge such expenses. The Comptroller and Auditor General observes that the 4th section of the Regimental Debts Act of 1863 declares that an Officer's or Soldier's funeral expenses shall be considered the first preferential charge on his personal property, and be payable thereout in preference to all other debts and liabilities. The War Office regard the provision in the Act of 1863 as neutralized by the Parliamentary Vote for funeral expenses. They admit, however, that there can be no doubt that, at the time when the Regimental Debts Act was passed, it was intended that the funeral of a soldier should be chargeable against his effects.

62. Your Committee concur with the Comptroller and Auditor General and the Treasury, that if the Secretary of State thinks it expedient to continue the present practice, which involves a departure from the terms of the Act, the Act should be so amended as to be brought in harmony with, and to give Parliamentary authority for, the practice.

The Secretary will, doubtless, consider the alternatives offered him by the Committee, either *not to charge to the Vote the funeral expenses of men who leave property behind them* or *to obtain an amendment to the Act of* 1863, *to the terms of which this practice is opposed.*

[*See* alteration of law in Section 2, Regimental Debts Act, 1893.]

Unvouched Charges.

68. As regards certain charges for which the vouchers were not forthcoming, the Comptroller and Auditor General observes that it is his duty, under the 27th section of the Exchequer and Audit Departments Act, to determine whether payments are or are not adequately supported by proofs of payment. The Treasury do not question the right of the Comptroller and Auditor General to determine the point; but they hold that it is within their province to sanction the inclusion in the account of a payment for which vouchers may not be forthcoming, provided that they are satisfied as to the *bona fides* of the payment ; thus substituting their own sanction for the missing voucher, and placing the payment in a position to be admitted by the Comptroller and Auditor General if he thinks fit. It appears that the Comptroller and Auditor General is satisfied with the explanation; and that, consequently, no real conflict of opinion exists.

The Committee have correctly interpreted the view taken by this Board on the general question of the substitution of Treasury sanction for a missing voucher.

Contracts.—Audit and Administration.

71. An important question has arisen between the Comptroller and Auditor General and the War Office as to the powers and functions of the Comptroller and Auditor General under the Exchequer and Audit Departments Act of 1866. For instance, in one case a contract was entered into with Messrs. Thorp & Sons for ribbon at 14*s*. This was subsequently cancelled and another contract has been made with Messrs. Davies for similar ribbon at 20*s*., thus involving a loss of public money, for which there does not appear to have been any real necessity. The Comptroller and Auditor General requested an explanation, which was refused by the War Office on the ground, as stated in this letter of 31 May 1887,* that the Exchequer and Audit Departments Act does not empower the Comptroller and Auditor General to enter upon matters of administration.

72. It is, no doubt, difficult in all cases to draw a distinction between questions bearing directly on audit matters and those which may trench upon the administrative functions of the Secretary of State. At the same time if, in the course of his audit, the Comptroller and Auditor General becomes aware of facts which appear to him to indicate an improper expenditure or waste of public money, it is his duty to call the attention of Parliament to them, and under these circumstances it may often happen that a few words of explanation may save much time and labour.

My Lords are glad to find themselves in general agreement with the views expressed by the Committee as to the powers of the Comptroller and Auditor General in regard to questions raised by him which may seem to trench on administration. The subject was discussed by Mr. Knox and Sir Charles Ryan before the Army Estimates Committee this year, and their Lordships had already formed their opinion on the subject after consideration of the views expressed in the evidence of those two gentlemen. The importance of the subject requires a full exposition of the opinions which my Lords entertain regarding it.

My Lords think it important that the Comptroller and Auditor General should have great freedom in drawing his reports to Parliament. He may draw attention to any circumstance that comes to his knowledge in the course of audit, and point out its financial bearing. As, however, he is the officer of Parliament, he will naturally have no disposition to question anything that Parliament has already sanctioned, and if he reports on a matter of administration from the point of view of its effects on the public purse, it will be for the purpose of bringing before Parliament something which otherwise would pass unnoticed. It is impossible to deny that it is always his right, and will often be his duty, to take this step, but it is equally obvious that the occasion and manner of such report must be matters of discretion.

On the other hand, my Lords hold that the Accounting Department may rightly assert a discretion as regards answering the queries of the Comptroller and Auditor General upon matters of administration. The Department is bound to show what it has spent, and for what purpose, and on what authority. If questioned why the money was spent, with due authority, in one way rather than in another, the Department may refuse to answer the question. But it, of course, must be prepared to justify such refusal to Parliament, if necessary.

For instance, if a Department employs a private firm for certain work at a far higher price than is, within the knowledge of the Comptroller and Auditor General, paid by other Departments to the same

* *See* War Office letter dated 31 May 1887, printed at p. 208 of Army Appropriation Account, 1886-7, H.C. 39/1888.

firm or to other firms for apparently similar work, the Department might be justified in answering the Comptroller and Auditor General's query by a simple reference to the authority of the Secretary of State. But the Comptroller and Auditor General would clearly be justified in making the query, and in calling attention to the circumstances in his Report, so as to enable the Public Accounts Committee, if it sees fit, to satisfy itself on the particular point. A fortiori, *when, as in the cases actually discussed before the Committee of this Session, there is an apparent financial inconsistency in the actions of the Department itself, the Comptroller and Auditor General appears to be more than justified in raising a query on the point; and the proceedings before this Committee have convinced their Lordships that the course adopted by the Comptroller and Auditor General has not resulted in any injury to the public service, and that in ordinary cases it is desirable that the Comptroller and Auditor General should receive such explanations as may be proper, in order that the question may be laid before the Committee of Public Accounts, for consideration, in a complete form.*

A Disallowed Charge revived.

74. An amount of £23 6*s*. was reported as inadmissible in the Army Appropriation Accounts of 1884-85, and the Public Accounts Committee having concurred in the opinion of the Comptroller and Auditor General that the charge was improperly raised against the Vote, it was consequently disallowed. The Treasury subsequently approved the admission of the sum in 1886–87, as a loss irrecoverable, and the Comptroller and Auditor General remarks that it would have been more consistent with respect for the decision of your Committee to have provided in some special manner for the charge. The Treasury admit that the proper course would have been to re-submit the case to the Public Accounts Committee last year, before the Accounting Officer was relieved of his liability.

NAVY APPROPRIATION ACCOUNT.

Marine Instructions; Order in Council.

76. The Comptroller and Auditor General raised the question last year whether a revised code of Marine Instructions should not be established by an Order in Council. Your Committee understand that the Admiralty, having further considered the question, has agreed to the suggestion, and an Order in Council is about to be submitted to the Treasury.

A draft Order in Council covering the revised code of Marine Instructions was approved by my Lords on 13 July last.

Reserves of Stores.

78. The Comptroller and Auditor General suggests the advisability of some fixed and recognized standard, at which, under ordinary circumstances, reserves of stores should be maintained.

79. In the view of your Committee it must rest with the Department to determine, from time to time, as a matter of administration the proper amount at which the reserves of stores should be maintained; but the Comptroller and Auditor General may render useful service in calling attention to any material differences of these reserves at the end of the financial year as compared with the previous year, in so far as they affect the naval or military outlay shown in the Appropriation Accounts.

Their Lordships of the Admiralty will notice that the Committee think it desirable to leave to Departments the decision as to the amounts at which reserves of stores should be maintained.

Charge for Pay of Officers Transferred.

80. The pay of certain Officers has been charged to Vote 1, which applies to Pay and Allowances of Officers, although they were employed from April 1886 to January 1887 in the recently created Naval Intelligence Department, which would come under Vote 3. It is no doubt desirable, as a general rule, that the Vote which receives the benefit of any service should be charged with it; but, in the opinion of the Treasury, it is essential that the charge in the Appropriation Account should be strictly classified in accordance with the Estimates in which provision was made for the charge; and your Committee consider that the payment in question may be admitted.

In accordance with the Committee's decision, the payments to officers of the Intelligence Department, referred to in this paragraph, will remain charged to Vote 1.

Unclaimed Effects of Deceased Seamen and Marines.

99. Your Committee last year expressed an opinion that it would be desirable to arrive at an early settlement as to the manner in which unclaimed effects of Deceased Seamen and Marines should be dealt with. They understand that the question is still under the consideration of the Board of Admiralty and that they are preparing a minute, which will shortly be submitted to the Treasury.

Note.—This question was settled by the Revenue Act, 1889, 52 & 53 Vict. c. 42, s. 30, which provides that unclaimed residues (including wages due) shall be paid to Greenwich Hospital Capital Account 6½ years after Admiralty receive notice of death.

STORE ACCOUNTS OF THE ARMY.

Audit.

100. In conformity with the arrangements contained in the Treasury Minute of 15 November 1886 [*see* p. 187] which was under the consideration of your Committee last year, the Comptroller and Auditor General has this year for the first time submitted to Parliament reports on the Army and Navy Store Accounts.

These reports, as explained by the Comptroller and Auditor General, have had for their object to show, so far as the test examination applied has been able to ascertain the facts.

1. Whether regulations exist which appear to be calculated to secure within the Department an efficient control over the receipt and disposal of Stores.
2. Whether the regulations laid down are duly enforced.

For the purpose of this examination, so defined, a sufficient staff has been provided, and it will be continued from year to year.

STORE ACCOUNTS OF THE NAVY.

Condemnation of Stores in the Victualling Yards.

127. The Director of Victualling states that he exercises a discretion over the recommendations of the storekeeper in this matter. It appears to your Committee that in cases of magnitude there should be a Board of Survey.

My Lords are disposed to agree with the Committee that, in cases of magnitude, Victualling Stores should not be condemned without the authority of a Board of Survey.

Losses of Naval and Victualling Stores.

129. The Comptroller and Auditor General suggests that abstract statements of deficiencies in stocktaking, with their value, should be periodically laid before the Board of Admiralty. That in the event of the Board giving orders for the adjustment of the differences, the covering sanction of the Treasury should be obtained; and that these statements should be submitted to the Comptroller and Auditor General for the purpose of enabling him to inform Parliament as to the value of stores which have been written off in the course of each financial year, and the authority on which the adjustments have been made. The arrangement would also seem to be applicable to stores lost *in transitu*.

130. The Treasury are of opinion, in which your Committee concur, "that this recommendation forms an excellent basis for an arrangement," and the Admiralty have expressed their willingness to take it into consideration.

The question of the authority upon which "writes-off" of victualling stores should be allowed arose in evidence before the Select Committee on Navy Estimates, and was by them remitted (Second Report, page iii) to the consideration of the Public Accounts Committee. The Board of Admiralty will observe that the latter Committee concur with the Treasury in approving a general proposal made by the Comptroller and Auditor General for dealing with this matter, and I am to express the hope that their Lordships of the Admiralty will see their way to the adoption of this arrangement.*

EXAMINATION OF EXPENSE ACCOUNTS.

132. Your Committee are aware that the Comptroller and Auditor General has examined and reported upon the Expense Accounts of the Navy; and they regret that they have been unable to take that report into consideration this year. They understand that, in the absence of specific instructions from Parliament, he does not propose to enter into any further examination of those Accounts. Your Committee believe that much advantage is to be derived from subjecting the Expense Accounts to the criticism of the Comptroller and Auditor General in a manner similar to that in which the Store Accounts of the Army and Navy are now criticized by him. The 33rd section of the Exchequer and Audit Departments Act, 1866, 29 & 30 Vict. c. 39, which deals with accounts other than Appropriation Accounts, directs that, "besides the "Appropriation Accounts of the Grants of Parliament, the Comptroller "and Auditor General shall examine and audit, if required so to do by "the Treasury, and in accordance with any regulations that may be "prescribed for his guidance in that behalf by the Treasury, the "following accounts," among which are included any "public accounts "which, though not relating directly to the receipt or expenditure of "imperial funds, the Treasury may by minute to be laid before Parliament direct." In the opinion of your Committee the Expense Accounts, which indirectly relate to the Expenditure of Imperial Funds, would fall under this description of accounts. All that is, therefore, apparently needed to ensure the inspection of them by the Comptroller

* H. C.213/1888.

and Auditor General is a Treasury Minute; and your Committee suggest that the Minute, with the necessary instructions, should be drawn and issued.

(To Comptroller and Auditor General.) Their Lordships are aware that you have already, on your own initiative, made one most useful report on these accounts, and they need not say that they attach great importance to the continuance of the examination of them, as well as to the extension of such examination, under proper conditions, to the Manufacturing Accounts of the Army and the Navy.

They think that it will be desirable that your position as regards a test audit of these accounts should receive such legal status as will leave no room for doubt about your authority in the matter.

In the opinion of the Committee, such status can be secured to you by the issue of a Treasury Minute under the 33rd section of the Exchequer and Audit Departments Act (29 & 30 *Vict. c.* 39).

But my Lords prefer that the powers under which you will apply your audit to the Expense Accounts of the Navy and to the Manufacturing Accounts of the Army and Navy should be derived from Parliament itself. They will accordingly take an early opportunity of introducing a Bill which will not only empower and direct you to examine the accounts in question in such manner and to such extent as may be laid down from time to time by the Treasury, and to report annually to Parliament the results of such examination; but which will also require the Departments to prepare and render these accounts to you every year [see Army and Navy Audit Act, 1889, 52 & 53 Vict. c. 31]. *In the meantime, however, they would regret that the useful work which you have begun should be suspended; and they would be glad if some arrangement could be made for a continuance of your examination of the Expense Accounts in such form as you may find practicable, assuring you that they will approve the staff which you may show to be necessary for your purposes.*

I am to add that, so far as the Expense Accounts of the Navy are concerned, my Lords suspend their definite judgment about the examination of them until they have received from Messrs. Mills and Waterhouse their final report, in order that they may see how far (if at all) that report may have a bearing on the question of those accounts. [See pp. 236–46.]

THIRD REPORT, 1888. H.C. 405.

Treasury Minute, 12 January 1889.

REPORT upon the CHANGES introduced into the FORM of the NAVY ESTIMATES for 1888–89.

1. The documents referred for the consideration of your Committee during the current Session include a copy of " Correspondence between " the Admiralty and the Treasury respecting the new form of Navy " Estimates " for 1888–89, a copy of which is also before your Committee. In this correspondence the Admiralty describe the alterations they have made in the form of each Vote, and defend them against the objections of the Treasury, and the Treasury, whilst retaining their objections, accept the new forms, as a whole, upon the responsibility of the Admiralty, with the intention that the correspondence should be subsequently laid before your Committee.

Importance of Continuity.

5. It is obviously a very serious step to destroy a continuity of form which has lasted for nearly two generations, and on which the means of comparison between the Estimates and Accounts of different years must depend for all but the experts of the Admiralty. [*See Treasury Minute after para. 49 at p. 218.*]

6. The form of Estimate which the Admiralty have discarded as obsolete has been used, in all its main features, ever since the Act 2 & 3 Will. IV. c. 40, of 1832, which required the Admiralty to make up annual accounts under the several heads of Naval Service expressed in the Appropriation Act and subjected them to Appropriation Audit. . . .

Treasury Responsibility.

7. Your Committee cannot therefore but regret that the Admiralty did not propose, and that the Treasury did not insist upon, a postponement of the adoption of the new form of Estimates until the House of Commons or your Committee had been given an opportunity of expressing their opinion upon it. Responsibility for the form of Estimates belongs to the Treasury exclusively, by long tradition and by statute. Section 23 of the Exchequer and Audit Departments Act makes the Treasury responsible for the form of the accounts of each spending Department; but as the form of accounts is necessarily determined in its general outline by the form of the Estimates on which Parliament grants the money, this enactment implies an anterior responsibility on the part of the Treasury for the form of the Estimates; and your Committee consider that the Treasury cannot properly devolve such responsibility on any other Department. Moreover, if the changes of form were held to require the judgment of your Committee, it seems only reasonable that they should have been submitted to your Committee before they were adopted, in accordance with the precedents of 1867, when the plan of Messrs. Foster and Vine for the classification of the Civil Service Estimates was submitted to and approved by the Public Accounts Committee of that year, and of 1881, when the scheme for dealing with Army and Navy Extra Receipts was submitted and approved in like manner.

My Lords fully accept the statement of the Committee that the Treasury is as responsible for the form in which Estimates are submitted to Parliament as for the form in which each spending Department renders its account, the Estimate being in fact the precursor and foundation of the Account.

Origin of the New Forms.

8. Your Committee have been informed by the Financial Secretary to the Admiralty that the origin of the changes in the Navy Estimates are to be found in certain evidence given before the Committee on Army and Navy Estimates of 1887, and the criticisms on the form of these Estimates made by the Chairman of that Committee in the House of Commons, in reply to which Mr. Forwood promised the House that the Navy Estimates for 1888–89 should be re-classified and should show the full cost, effective and non-effective, of each Service. But your Committee think that this promise would have been fulfilled if a model of the revised Estimates had been laid before the House of Commons, so as to enable the House to examine them, and, if thought desirable, to refer them to your Committee before so important a change was adopted. Such a course would have afforded full opportunity for

considering, with the aid of the War Department and the Treasury, whether, and, if so, how far similar changes in the Army Estimates would be desirable, with the object of securing an improved and, at the same time, more uniform classification.

They also agree that no extensive and important change in the form of an Estimate should in future be allowed by them to be adopted before it has been submitted to and approved by the Committee of Public Accounts.

Object of the New Forms.

9. The object of the Admiralty, as described in their letter of 20 December last, has been to bring distinctly before Parliament, in one view, the whole cost of each particular Service; and for this purpose they have so re-arranged the Votes as to bring items cognate to any particular Service, wherever possible, into a single Vote, and where this is impossible, they have combined such items with the items of the Vote itself in an explanatory statement printed opposite the first page of each Vote, and called the " Left-hand Statement." Moreover, the details hitherto given in Appendices have been brought, so far as practicable, into the body of the Estimates. Your Committee approve of this object, but they would point out that it might be attained without altering the old form of Estimates by presenting to Parliament a separate paper containing a re-classification of the Estimates under the heads of particular services, as has been sometimes done by the War Department for the Army Estimates. The form in which it is most convenient, for administrative reasons, to ask Parliament to vote money for the Navy is not necessarily the most interesting form in which Naval expenditure admits of being presented.

Transfer of Navy Half-Pay from Non-effective to Effective Services.

11. Both Army and Navy Money Votes are divided into two groups, designated respectively " Effective Services " and " Non-Effective Services." Hitherto half-pay has been treated by both Admiralty and War Department as a Non-Effective Service, because it is pay for which no concurrent service is rendered. The War Department continue so to treat it, placing half-pay as a separate Vote in the Non-Effective group. . . .

13. In the opinion of the Treasury, therefore, Navy half-pay should be restored to its former place amongst Navy Non-Effective Services, and your Committee concur in this opinion.

The Shipbuilding Vote.

20. Your Committee now come to the most important of the New Votes, viz., Vote 8, for Expenses of Shipbuilding, &c., which is divided into three sections,—I. Personnel, II. Matériel, and III. Contract Work; each of which is voted separately, and is therefore to all effects a distinct Vote. This division obviates the objection that might be taken to bringing together an expenditure of over £4,000,000 for dockyard and contract work in a single Estimate.

24. If a service be provided for in a distinct subhead, Treasury sanction is required for any excess over the provision made for it. Moreover, if a service constitutes a distinct subhead, the difference between the estimated and actual expenditure upon it will be both shown and explained by the Admiralty, in the statement of surpluses and deficits

annexed to the annual Appropriation Account; but if the service is only an item within a subhead, the difference between the estimated and actual expenditure upon it will not be explained, although it may perhaps be shown in an Appendix to the Account. . . .

Distribution Tables annexed to the Shipbuilding Vote.

25. Pages 108 to 113 of the Navy Estimates for 1888–89 contain three tables, one for each section of the Shipbuilding Vote, which combine and distribute under certain general headings the expenditure provided for in that Vote, and the correlative expenditure provided for in the Medical, Works, and Civil Pension Votes, and the value of stores to be withdrawn from stock for shipbuilding purposes. These Distribution Tables have given rise to prolonged controversy between the Treasury and the Admiralty, and it is stated in a prefatory note on pp. 108–9 that they " will be submitted to the judgment of the Public Accounts " Committee, with the object of obtaining their opinion as to the " inclusion of similar tables in future years as an *integral portion* of " the Estimates."

26. Your Committee think that much of the difference between the two Departments on this subject is due to a misunderstanding as to the term " integral portion of the Estimates," and some misapprehension of the powers of the Comptroller and Auditor General in regard to Appendices to an Estimate. The desire of the Admiralty was to bring the Navy Expense Accounts under the same antecedent control of Parliament, and the same criticism on the part of the Comptroller and Auditor General, as the Navy Appropriation Account, and they thought this object could be attained if the estimated expenditure were distributed under the general headings adopted in the Navy Expense Accounts, in tables placed in such close proximity to the Shipbuilding Estimate as to form, in the Admiralty view, an integral part of the body of the Estimate. The fact of Parliament voting the several sections of that Estimate would then imply, as was thought, a Parliamentary ratification of the Distribution Tables, and the Comptroller and Auditor General would then be able to check the accounts by the Distribution Tables and report on the differences between them just as he does upon differences between actual and estimated expenditure in the Appropriation Account, and in a way he could not do if the tables formed mere appendices to the Estimates, and had never received the sanction of Parliament. But your Committee agree with the Treasury in holding—

(*a*) That tables which combine the cash expenditure of a given year with the money value of issues of stores from stock purchased indifferently in that or previous years cannot form an integral part of a cash Estimate on which a Cash Vote is to be taken, and wherever they may be placed, can never hold any closer relation to such an Estimate than that of appendices.

(*b*) That, in like manner, the expenditure of stores and labour which is forecast in such tables cannot be included in the Appropriation Account of the Cash Vote, or be subjected to appropriation audit, and as the law now stands, must, if audited by the Comptroller and Auditor General at all, be audited by him under Section 33 of the Exchequer and Audit Departments Act.

(*c*) That the detailing of expenditure in an appendix to an Estimate instead of in the body of it has no necessary effect on the power of the Comptroller and Auditor General to check those details. That Officer is no doubt specially concerned with Division I. of an Estimate, which defines the terms of appropriation, and specifies the total amount voted, and with Division II., which shows the subheads under which the Vote

is to be accounted for, by Treasury Regulation; but it is open to him to test actual expenditure by any item in Division III. which shows the details of the subheads, or in any appendix to the Estimate, provided the headings of the Departmental Ledgers correspond with those items in sufficient detail to enable him to do so. Moreover, the Treasury has the statutory power of requiring a Department to open any headings in their ledgers that may be needful for the purposes of examination and audit. It is undesirable to introduce into the body of an Estimate any headings that are not susceptible, if necessary, of being reproduced in the account books.

(*d*) That no binding sanction of Parliament can be obtained for the tables unless some arrangement, such as has been suggested to your Committee by the Comptroller and Auditor General, and corresponding to that applied to the Numbers Vote, be made for voting the money value or quantities of stores to be issued out of stock and labour to be employed in the year, separately from the vote of cash to be expended in the year.

27. Your Committee commend the desire of the Admiralty to place the Navy Expense Accounts, as nearly as may be, on the same footing as the Appropriation Account, by presenting for Parliamentary approval an Estimate under the different heads of the Expense Accounts, which the Executive Officers of the Board will be bound to follow, and by which the Comptroller and Auditor General will test the accounts. The preparation of these accounts will, moreover, be hastened so that they may be presented to Parliament with the Report of the Comptroller and Auditor General, at about the same time as the Appropriation Account, with which they ought to correspond so far as regards the cash expenditure of the year. But if Parliamentary sanction of the Distribution Tables be obtained by vote or resolution, the Admiralty must be prepared for the logical consequences, and submit to the statutory restraint, as well as the Treasury control, which will be necessarily entailed by such an arrangement.

Programme of Works, &c., attached to the Shipbuilding Vote.

28. Your Committee think it would tend to convenience if the programme of works in progress on shipbuilding, &c., in H.M. Dockyards and by contract (pp. 115 to 188) and the abstract of estimated expenditure on ships named in the programme (pp. 189 to 195) were removed to the end of the Estimate volume, as appendices to Vote 8.

Works and Buildings.

30. Your Committee fear they must enter into considerable detail in order to explain the peculiarities of the new form of Estimate for Naval Works and Buildings, and the points of difference between the Treasury and Admiralty connected therewith.

31. The general rules laid down in the Treasury Minute of 24 November 1870, on this subject, are as follows:—

"6. As to New Works, Improvements, and Repairs.

"The Estimates for works, improvements, and repairs, both in the War Office and Admiralty, as approved by Treasury Minute dated 13 January 1846, contain the following particulars:—

"The first column shows the total estimate for work.

"The second, the amount already granted for it.

" The third, the gross sum expended upon it up to the previous 31 December. [*Altered to probable expenditure to close of previous financial year for Army in* 1885–86 *and for Navy in* 1889–90.]

" The fourth, the Vote required for the ensuing financial year; and,

" The fifth, the further estimated cost of completing the work.

" No new work of any magnitude is to be commenced without the previous sanction of Parliament; but when a work has received such sanction, and has been included in previous Estimates, such work may be proceeded with without waiting until the Vote for the year is passed; but no excess of expenditure during the financial year beyond the total estimated cost of each work, *or the sum voted for such work in Part I., or for each item in Parts II. and III., should be incurred without the previous sanction of this Board.**

" All purchases and sales of land should be submitted for Treasury approval. [*Also all hirings of land or buildings for over* 100*l. per annum, and all leases whatsoever.*]

" 7. URGENT AND UNFORESEEN EXPENDITURE ON WORKS.

" No work not provided for in the Estimates, the cost of which is estimated to exceed £500, should be undertaken without the previous sanction of this Board; and any work under this amount, only when the service may be deemed of urgent and indispensable necessity.

" My Lords will, however, be prepared to consider any recommendation for any expenditure beyond the amount stated, when the Secretary of State or the Board of Admiralty represent to them that circumstances in their opinion render delay in the sanction of such works unadvisable for the interest of the public service.

" They would, however, require that a quarterly statement should be submitted to them, showing any work, and the cost of such work, which may have been undertaken in accordance with this regulation, whether below or above the limit above mentioned. This regulation to apply to services both at home and abroad."*

32. The Parts I., II., and III. mentioned in the italicized passage of the foregoing extract, are groupings of subheads and details peculiar to the Army Works Estimate, inside Divisions II. and III., and mean, respectively, Part I., Works of £1,000 or more, †Part II., Works of less than £1,000, and Part III., Repairs. It was obviously the intention of the Treasury Minute of 24 November 1870 to make the then existing arrangement of the Army Works Estimate common to the Navy also, but this intention has never yet been carried out.

34. None of the sums mentioned in the . . . details as to be voted for [the ensuing financial year] can be exceeded without Treasury sanction, except under the conditions prescribed by the Minute of 24 November 1870 for urgent and unforeseen expenditure on works. In short, the specification of a service in the body of the Army Works Estimate at once makes it subject to Treasury control; and the headings of the War Office Ledgers are bound to correspond to the services so specified, in order that the Comptroller and Auditor General may easily tell whether any excess has been incurred and submitted for Treasury sanction.

35. At the date of the Treasury Minute of 24 November 1870, and until 1879–80, inclusive, the form of the Navy Works Estimate was as follows:—

* * * * *

* For subsequent modifications of these rules, *see* P.A.C. 1909, Appendix 17, printed at p. 519.

† This limit was increased to £2,000 in 1902-3 for the Army, and in 1903-4 for the Navy.

SPECIMENS OF DETAILS.

B.—Sheerness.

		£	
Renewing fender piles to jetty	Vote required	500	
Renewing smoke trunks in smithery and boiler shop	,, ,,	500	
Other works under 500*l.* each	,, ,,	1,380	For Details, *see* Appendix.
Repairs and maintenance of buildings	,, ,,	2,500	
Repair and maintenance of naval barracks	,, ,,	500	

36. The chief difference here, from the Army form, is that all works which cost £500 or more (instead of £1,000) are detailed in the body of the Estimates, so that the sums taken for each could not be exceeded without Treasury sanction. All works of less than £500, and repairs, were detailed in an Appendix, and Treasury Sanction was only required for an excess on the items in the body of the Estimate which represented the aggregate of such minor works or repairs at each yard.

37. In 1880–81 the form of the Navy works Estimate was changed to this extent, that all works of less than £10,000 were transferred to an Appendix, and thereby placed on the same footing as works of less than £500. The effect was to remove Treasury control from the transferred works to the items in the body of the Estimates which comprised those works.

40. When the Admiralty had determined to recast the whole Navy Estimates in 1887, they abolished the Appendices to the Works Estimate and transferred the details into the body of the Estimate. The Treasury pointed out that the effect of this would be to subject each detail, even though of a work costing less than either £1,000 or £500, to the control of their Department, under the rule laid down in the Treasury Minute of 24 November 1870. The Admiralty protested, and wished still to confine Treasury control to works of £10,000 or more. The Treasury declined to alter the general rule, and induced the Admiralty to confine the details in Part III. of the Estimate to New Works of £1,000 or more, according to the Army plan, gathering works of less cost and repairs into collective items for each yard.

42. There is still a difference of opinion between the Admiralty and the Treasury on two points in this new form of Estimate. The Admiralty desire to confine Treasury control over excesses of expenditure on new works to items of £10,000 or upwards in total cost. . . . whilst the Treasury maintain that their control extends to every item specified in the body of the Estimate. Again, the Admiralty would like to put much more detail into Part III., specifying each minor new work, addition, and alteration, however small in amount, whilst the Treasury wish such details to be given, if at all, in an Appendix, where they may be exempted from Treasury control consistently with the general rule laid down in the Treasury Minute of 24 November 1870.

43. Your Committee observe that the form of the Army Works Estimate has successfully stood the test of experience for over 20 years, without change or complaint, whilst that of the Navy has been frequently altered during the same period and is still the subject of dispute, and they agree with the Treasury in thinking it expedient that the Navy form should, so far as the peculiar circumstances of the Naval Service permit, be brought into harmony with the Army form, and with the terms of the Treasury Minute of 24 November 1870.

The recommendations of the Committee [paras. 11 to 47] *accord in all respects with the views already expressed by this Board.*

Relation between Audit by the Comptroller and Auditor General and Departmental Examination of Accounts.

48. Your Committee concur in the remarks on this subject contained in the Treasury letters of 28 February and 14 April last. The accounting Department is solely responsible for its own accounts and is bound to satisfy itself of their accuracy before submitting them to the Comptroller and Auditor General, who examines and audits them, not on behalf of the accounting Department, but on behalf of Parliament. It would be a grave mistake, therefore, for any accounting Department to think that any action by the Comptroller and Auditor General could relieve it of its own duty of departmental examination of accounts.

My Lords are glad to find the Committee emphasizing the contention of this Board, that no action on the part of the Comptroller and Auditor General can relieve the accounting Department itself from the responsibility which devolves upon it for the accuracy of its own accounts, and for exercising by means of its own officers an efficient control over the disposal of its stores.

Uniformity between Army and Navy Estimates.

49. It seems to your Committee of great importance that, where similar services are provided for in Army and Navy Estimates, a uniform method of providing for them should be adopted, as far as possible; and, in order to secure such uniformity, your Committee suggest that no change in the mode of providing for such services should be made without consultation between the Admiralty, the War Department, and the Treasury.

My Lords read the Committee's final recommendation in connexion with (1) *paragraph 5 of the Committee's Report, in which they call attention to the serious consequences of destroying continuity of form in Estimates, and the consequent means of comparing the expenditure of one year with the expenditure of another year; and with* (2) *paragraph 49 of the Report in which the Committee advise that when similar services are provided for in Army and Navy Estimates, a uniform method of providing for them should, as far as possible, be adopted.*

*My Lords accordingly understand the Committee to recommend the appointment of an inter-departmental committee, representing the Treasury, Admiralty, and War Office, which should take the Army and Navy Estimates into consideration with a view to determining which parts of those Estimates are susceptible of reduction to a common form. Such a committee might proceed with their inquiries as soon as the Army and Navy Estimates for 1889–90 are presented, in order that any proposals which they may make may be submitted to the judgment of the Committee of Public Accounts next Session.**

Conclusion.

52. As a whole, therefore, your Committee do not object to the adoption of the new form for next year, subject to the modifications suggested in this Report. In the meanwhile they recommend that the Admiralty and War Departments should, in conference with the Treasury, consider whether a form of Estimate insuring approximate uniformity for both Departments might not be framed and be laid before the House of Commons with a view to its being permanently adopted.*

The recommendations of the Committee accord with the views already expressed by this Board.

* The changes recommended by the inter-departmental committee were considered by the Public Accounts Committee of 1890. See their First and Third Reports, H.C. 71 and 177; also pp. 250-8 of this volume.

FIRST REPORT, 1889. H.C. 73.

Treasury Minute, 6 January, 1890.

CIVIL SERVICES.

CLASS III., VOTE 28.—COUNTY COURT OFFICERS, &c., IRELAND.

Use of Appropriation Act to overrule terms of earlier Act.

2. . . . The Comptroller and Auditor General reports . . . payments amounting to £1,118 1*s.* 3*d.* . . . which have been made to certain resident magistrates, called Divisional Magistrates, in addition to the salaries to which they are entitled under the provisions of 37 & 38 Vict. c. 23. Having regard to the withdrawal of the Bill introduced last Session to authorize additional payments to divisional magistrates, and to the opinion expressed by the Committee of Public Accounts last year, he states that he cannot admit the sum of £1,118 1*s.* 3*d.* as a proper charge against the Vote. . . .

3. The opinion of the Committee of Public Accounts in 1888, above referred to, was expressed in the following terms:—

"Salaries have again been paid during the year to certain resident magistrates at rates in excess of those authorized by Act 37 & 38 Vict. c. 23. Your Committee were informed last year that a Bill had been drafted to legalize these payments. Unfortunately, so far as your Committee are aware, no serious effort was made to pass the Bill. The omission to establish the legality of these payments is much to be regretted, and were it not for the personal assurance of the First Lord of the Treasury and the Chief Secretary for Ireland in the House, that the Bill will be pressed during the present Session, your Committee would feel bound to take serious notice of the continued irregularity."

4. The assurance given has not been fulfilled, and your Committee would have to report still more strongly upon the irregularity repeatedly committed, but for the evidence laid before them in the following Treasury Minute that means have been discovered for discontinuing the payment of salaries in excess of the limit fixed by statute in the case of persons holding the office of resident magistrate.

COPY OF TREASURY MINUTE, dated 15 February 1889.

My Lords have had under review the correspondence which has passed between the Irish Government, the Treasury, and the Comptroller and Auditor General relative to the status and remuneration of the divisional magistrates in Ireland.

This Office was created in 1883 on the cessation of an arrangement, whereby certain special duties relating to the detection of crime and the control of the police had been assigned to six resident magistrates temporarily selected from among those then serving.

Of the divisional magistrates, whose number was at first limited to four, three were selected from among the resident magistrates, while the fourth was an Assistant Inspector General of Constabulary. Their remuneration was fixed at an inclusive salary of £1,000 a year.

The duties of these officers, whose number was subsequently raised to six, were represented as in the main executive, but the Irish Government appear at that time to have thought it necessary that each divisional magistrate should hold a Commission of appointment by the Lord Lieutenant under the powers given by the Act of 6 & 7 Will. IV. c. 13, as resident magistrate, and that the salary should be charged on the Vote for County Court Officers, &c. (Ireland), as the salary of a resident magistrate.

Upon this arrangement coming to the knowledge of the Comptroller and Auditor General, he called attention to the fact that the

salary of £1,000 a year was in excess of the maximum salary fixed by statute for a resident magistrate of the first class, and that so long as a divisional magistrate held an appointment as resident magistrate it was necessary either that the salary should be reduced, or that the statutory limit should be extended by further legislation.

In this view the Committee of Public Accounts expressed their concurrence, and my Lords undertook that an enabling measure should be presented to Parliament.

A Bill for this purpose was accordingly prepared in successive Sessions, and has been three times introduced; but the great pressure upon the time of the House has hitherto prevented it from becoming law.

In December 1888 the Irish Government directed the attention of the Treasury to the Report of the Committee of Public Accounts of the preceding August, in which the opinion was expressed that the statutory irregularity complained of was caused solely by the fact that the divisional magistrates held warrants of appointment as resident magistrates. The Committee added that they understood that a divisional magistrate need not be a "salaried magistrate" within the meaning of the Act 37 & 38 Vict. c. 23, whereby the maximum limit of salary was fixed; that the office having been created after the passing of the Act was not contemplated by that Act, and that in consequence a warrant of the Lord Lieutenant did not appear to be necessary.

On a consideration of the views thus advanced the Irish Government thought it right to submit a case for the opinion of their Law Officers, who advised that it was competent to the Lord Lieutenant to create officers with purely executive duties, and to appoint them without the issue of any warrant under statute, and that thus, on the ceasing to hold the commission of a resident magistrate, the statutory irregularity of the payment of the divisional magistrates' salaries would cease, and the necessity of further legislation would be avoided.

The Law Officers added that, if the officers thus designated were appointed by the Lord Chancellor to the Commission of the Peace for particular counties, they would be qualified to discharge all the duties of their office.

My Lords have since had an opportunity of considering a detailed statement of these duties, and they concur with the Irish Government in the opinion that they are of an entirely executive, as distinguished from a judicial, character.

My Lords regret that the above considerations were not submitted to them at an earlier stage so that an admitted irregularity of administration might have been at once terminated, and that the announcement of their intention, founded on an incomplete statement of the facts, to introduce into Parliament a measure dealing with the subject, might have been avoided.

On a full review, however, of all the circumstances now brought to their knowledge for the first time, their Lordships feel that it would not be proper to apply to Parliament for further powers, while the means of regularizing the desired arrangement in a perfectly simple manner are already at their disposal.

If, therefore, the Lord Lieutenant is prepared now to cancel the warrant of appointment as magistrate, issued under the provisions of the Act 6 & 7 Will. IV., under which the divisional magistrates now act, and to appoint them to executive offices, my Lords will sanction the payment to the officers so appointed of salaries of 1,000*l.* a year each from the date of their appointment, together with expenses of locomotion and subsistence allowance at the usual rate.

In order to make clear the distinction between the status of the officers thus reconstituted and that of the resident magistrates, their Lordships concur with the proposal of the Irish Government, that they should in future be designated divisional commissioners, instead of magistrates.

The pension claim of a commissioner who, previously to his appointment, has served as a resident magistrate, or in any other office of the permanent Civil Service, will not be injuriously affected by the transfer, but, as regards officers appointed from the Royal Irish Constabulary, or from the Dublin Metropolitan Police, my Lords are of opinion, for reasons which have already been submitted to the Irish Government, that such officers are not entitled, in the present state of the law, to count for pension on their ultimate retirement the period of their constabulary or police service, together with their service as divisional commissioner. My Lords propose to put an end to this disability by legislation, if it should prove possible to do so, during the coming Session.

It is, of course, a condition of their Lordships' sanction to the creation of the proposed six new offices, that the vacancies which will be thus created in the number of resident magistrates or constabulary or police officers shall not be filled up. . . .

5. Your Committee recognize that the course which is now proposed to pursue regarding the payment of the officers hitherto called divisional magistrates will obviate, for the future, the irregularity which previous Committees have repeatedly condemned.

6. Under these circumstances they do not press their objection to the admission of the payment of £1,118 1*s.* 3*d.*

Upon the explanations contained in their Lordships' Minute of 15 *February last, the Committee do not press the objections formerly entertained to charging to this Vote the salaries of the officers now called divisional commissioners, at rates in excess of those prescribed by statute for resident magistrates.*

SECOND REPORT, 1889. H.C. 107.

Treasury Letter, 6 *May* 1889.

Shipbuilding Programme.

Proposal to submit as " Vote B " for Sanction by Resolution.

1. The new form in which the Navy Estimates for 1888–89 were placed before Parliament was referred to the Public Accounts Committee of last Session for consideration.

In commenting upon the new Vote 8, and the Distribution Tables it contained, the Committee, in their Third Report, commended the desire of the Admiralty to place the Navy Expense Accounts, as nearly as might be, on the same footing as the Appropriation Account, " by " presenting for Parliamentary approval an Estimate under the different " heads of the Expense Accounts, which the Executive Officers of the " Board will be bound to follow, and by which the Comptroller and " Auditor General will test the Accounts."* But the Committee agreed with the Treasury in holding that to obtain binding Parliamentary sanction for such an Estimate, some arrangement corresponding to that applied to the Numbers Vote would be necessary.

2. Your Committee observe with satisfaction that the Admiralty have endeavoured to meet this view, and that, consequently, a new Vote appears in the Navy Estimates for 1889–90, designated Vote B. It contains under separate subheads the estimated expenditure in labour,

* P.A.C. 3. 1888. 27, *see* p. 215.

cash, and issues of stores on the Programme for Shipbuilding, Repairs, Maintenance, &c., with a proportion of Establishment Charges, and an estimated Stock Account of Stores.

This Vote B. it is proposed, if your Committee approve its form, to submit to Parliament for sanction by Resolution.

3. Your Committee have taken evidence respecting the form of this new Vote, and have satisfied themselves that it is approved by the Treasury. They have also ascertained that the form of the Expense Accounts will necessarily conform to the details of Vote B., and will enable the Comptroller and Auditor General to give Parliament more clearly than he otherwise could do the assurance that money and stores have been used for the purposes defined in the Programme for the year. It is proposed to introduce a Bill conferring on him statutory power to examine the Navy Expense Accounts and the Manufacturing Accounts of the Army, and to report the results to Parliament.

4. The Admiralty, on the other hand, are fully aware of the logical consequences of the new arrangement, namely, that they are deliberately subjecting their action, as the Committee of Public Accounts pointed out last year, to statutory restraint as well as Treasury control.

5. Under these circumstances, your Committee have only to report their approval of the form of Vote B.

My Lords likewise approve of Vote B., and of the proposed form of Resolution, viz.:—

> *" Resolved, that the Programme of the estimated expenditure " in cash, and in net values of stores issued, for shipbuilding, " reconstruction, repairs, maintenance, &c., in the year* 1889–90, *" as shown on page* 159 *of the Navy Estimates, be approved."*

In the fourth paragraph of their Second Report, the Public Accounts Committee speak of the logical consequence of this arrangement being that the action of the Admiralty will be subject to " statutory restraint," as well as Treasury control. This will be true as soon as Parliament has, as indicated in the 3rd paragraph of the same Report, placed the Admiralty under a legal obligation to render the Annual Navy Expense Accounts to the Comptroller and Auditor General in conformity with the Programme, and directed that officer to examine those accounts, and report the results to Parliament. But my Lords would explain that, as at present proposed, Vote B. will not be embodied in the Appropriation Act, and the Parliamentary approval of it will be confined to a Resolution of the House of Commons only. The submission of Vote B., for the approval of that House will not, therefore, of itself, subject the Admiralty to any fresh " statutory restraint."

Note.—It was not found practicable to submit Vote B. for approval by Resolution of the House of Commons, as had been originally intended; but Parliament has given an indirect sanction to the Programme of Shipbuilding comprised in Vote B., by the Act 52 & 53 Vict. c. 31. It is to be observed that this Act constitutes Vote B. the standard by reference to which the Comptroller and Auditor General is to examine the Expense Accounts of the Admiralty. On the repeal of this Act by the Act 11 & 12 Geo.V., c. 52, a similar provision was included in Section 5 of the latter.

THIRD REPORT, 1889. H.C. 175.

Treasury Minute, 20 *August* 1889.

NAVY APPROPRIATION ACCOUNT.

EXCESS ON VOTES.

Treasury Sanction for Transfer of Surpluses withheld.

1. The Admiralty incurred deficits on two Votes, and defrayed these excesses out of savings on two other Votes, without obtaining the previous Treasury sanction required by the Appropriation Act. This is the first occasion, since the passing of the Exchequer and Audit Act, on which the Treasury has declined to approve the use of surpluses on other Navy Votes to meet such excesses. The occurrence is, therefore, in this respect unprecedented. It has been the subject of correspondence between the Admiralty and the Treasury, of comment by the Comptroller and Auditor General, and of evidence before your Committee. They have thus been led carefully to consider a question which has frequently been the subject of Reports from former Committees of Public Accounts; namely, what are the conditions which should be fulfilled before a surplus on one or more Naval or Military Votes may be applied to meet deficiencies on others?

2. This question was very fully reported upon by the Committee of Public Accounts in 1862.* They described in detail the successive changes made by Parliament in 1832, 1846, and 1858 in regard to the limitations imposed on the powers formerly exercised by the Military and Naval Departments of transferring the surplus of one Vote to meet the deficiency on another. A consideration, first, of the amount voted by Parliament for certain services which had been applied to others; and, secondly, of the excesses and surpluses on the particular Votes, pointed to "the necessity of some further check on the power of transfer." . . . The Committee of 1862 proceeded to report as follows:—"In the year 1860-61 the transfers in the Army and Navy services amounted to £962,655. Your Committee do not wish to imply "that the sums thus spent were not required for the public service, "or that the transfer was not in strictness within the powers of the "Government; but they conceive that the existence of the power "facilitates the presentation of incorrect estimates, and consequently "leads to an application of money voted for one service to another, for "which it was not appropriated by Parliament. . . . Your Com-"mittee have given to the subject their most careful attention and "have unanimously come to the opinion that the power of transfer "should be subjected to some further check."

After discussing certain alternative proposals the Committee of 1862 concluded with the following recommendations:—

> "On a full consideration of the many difficulties attending the "question, your Committee recommend that the power of transfer "from the surpluses to meet deficiencies should be continued; but "that such transfers should be considered as temporary advances, "and should require the subsequent sanction of a Vote of Parlia-"ment.
>
> "According . . . " [The Committee quote to the end of the Second Report of 1862. *See* p. 14 of this volume.]

3. In accordance with these recommendations an important change was introduced into the language of the Appropriation Act of 1862, and the enactment then made has been repeated annually. It is as follows:—

[*See* P.A.C. 1864. 8, the part in *italics*, printed at p. 17.]

* P.A.C. 2. 1862, *see* pp. 9 to 16.

4. As to the effect of this enactment, the Comptroller and Auditor General points out that "the Admiralty cannot legally apply a surplus "under one Vote to meet a deficit under another without Treasury "sanction, and the Treasury can only give this sanction temporarily, "and then subject to the following conditions:—

"1st. There must be a necessity for the excess expenditure.

"2nd. The expenditure must be such as it would be detrimental to the public service to postpone until provision could be made for it by Parliament.

"3rd. The application to the Treasury must represent the circumstances which render the additional expenditure necessary.

"4th. The proceedings must be subsequently submitted for Parliamentary sanction, &c."

To this analysis of the enactment may be added that, on discovering the necessity for the excess, the Department must *forthwith* make application *in writing to* the Treasury.

5. The mode of obtaining "the most formal consideration, and sanction of the House" in respect of an advance temporarily authorized by the Treasury, under this statutory power, was suggested by the Committee of Public Accounts in 1864, and has been followed, a Resolution of a Committee of the whole House having been sought in such cases.* Resolutions of this nature have since 1879, in accordance with a recommendation of the Committee of Public Accounts of that year, contained a detailed statement of surpluses and deficits on the several Votes.

6. In 1876, the Committee of Public Accounts called attention to the fact that the habitual use made by the Admiralty of the power of applying, with Treasury consent, surpluses on certain Votes to meet deficiencies on others, instead of obtaining a Supplementary Estimate, tended "to a great extent to render nugatory the control of the House "over the separate Votes." The Committee further remarked: "In "a service like that of the Navy, where unforeseen demands must from "time to time arise, some such power is undoubtedly necessary; and "the provision of the yearly Appropriation Act, which requires the "consent of the Treasury to its exercise, is intended to guard against "its unnecessary use." Having shown that this object had not been fully attained, "as in some cases the consent of the Treasury is not "applied for until after the excess of expenditure has been incurred," the Committee expressed their opinion "that the Treasury should be "informed at the earliest practicable date of any probable excess on a "Vote," and its consent asked for transferring a surplus anticipated on other Votes.†

7. In 1879 (4 March) the House passed the following Resolution:—

"That it is desirable that a statement of every case in which the Naval and Military Departments have obtained the sanction of the Commissioners of Her Majesty's Treasury to the application of an actual or anticipated surplus on one Vote, to meet a deficiency on another Vote within the financial year, setting forth the representation made to them by the respective Department, be laid upon the Table of the House within three weeks after such sanction shall have been given, if Parliament be then sitting; or, if Parliament be not then sitting, within three weeks after the next meeting of Parliament."

Your Committee are of opinion that Treasury Minutes presented to the House in pursuance of this Resolution should be printed and circu-

*P.A.C. 1864. 18, *see* p. 18. Full Parliamentary sanction is afterwards given by the next Appropriation Act, *see* T.M. on same page.

†P.A.C. 1. 1876. 71 to 77, *see* p. 54.

lated in order to bring such statements by the Treasury under the notice of the House. The Select Committee on Army Estimates reported to a similar effect last Session.*

8. Your Committee have referred to the Report of 1862, and to the various steps subsequently taken in connexion with the annual enactment, in order that the reasons for the existing law and practice, and the solid basis of experience on which that law and practice rest, may be brought to the notice of the House.

9. There has frequently been a not unnatural inclination on the part of a Department to become restive under restraints upon their liberty to expend the money voted for a given year, if not upon the objects expressly approved, then upon other objects, rather than surrender it to the Exchequer. Your Committee desire to record their opinion that the restraints imposed by the section in the Appropriation Act are in themselves wise and necessary, and that experience prior to 1862 shows that their relaxation would probably "facilitate the "presentation of incorrect estimates, and consequently lead to an "application of money voted for one service to another for which "it was not appropriated by Parliament," without any recognition of the right of Parliament to be consulted.

10. No complaint has been made to your Committee that the Treasury has unjustly or unreasonably withheld the temporary sanction which it is empowered to give. Mr. Forwood, the Financial Secretary to the Admiralty, bears testimony to the fact that the Treasury meets the Admiralty "very reasonably and very fairly as regards the utilization of surpluses."

Your Committee fully recognize that cases have occurred, and will doubtless occur again, where money granted by Parliament under a particular Vote can properly be applied to an excess on another Vote. The Treasury has certainly not, in your Committee's opinion, hitherto been too rigid in the requirements it has exacted from the Departments before consenting to exercise its discretion. Indeed, as Mr. Ryder, of the Treasury, stated in his evidence, it is under the influence of criticism from the Audit Office and the Reports of the Public Accounts Committee that the Treasury has of late years "drawn rather a tighter rein."

Your Committee commend the position taken up by the Treasury, especially in resisting the tendency of a Department to regard the application for temporary Treasury sanction *as a mere "matter of* form," and *in insisting, in accordance with the recommendation of* 1876, *on having information in writing at the earliest practicable date* of any probable excess. *If this condition is fulfilled, the Treasury will* doubtless exercise its power, in relation to these applications, with full consideration for the necessity or urgency of the particular case.

Cases are also liable to occur of unforeseen excesses, only discovered by the Department after the close of the financial year, or when the accounts are finally made up. The Treasury has, in your Committee's opinion, acted reasonably in holding that in such cases it may exercise the lesser power of giving an *ex post facto* sanction, seeing that it possesses the greater power under the Appropriation Act of giving its previous sanction where an excess is deliberately incurred. At the same time the Treasury should discourage any tendency, on the part of the Departments, to bring excesses, which by the exercise of care and foresight might have been avoided, within the category of unforeseen excesses.

11. The deficits, which were met out of surpluses, without the sanction of the Treasury, in the year ended 31 March, 1888, occurred

* In their Fourth Report, *see* H.C. 269/1888, p. xi.

under the Store Votes, and amounted to £49,895 2*s.* 1*d.*, under Vote 2 [Victualling], and £141,380 13*s.* 8*d.* under Vote 10, Section 1 [Naval Stores].

Application was not made to the Treasury until 28 March 1888, nor received until 29 March, the day before Good Friday, and two days before the end of the financial year. The refusal of the Treasury to approve the use of surpluses on other Votes to defray these deficits was based on the ground that this application did not arrive "in time to "admit of its consideration and of a reply being made to it before the "close of the financial year." The Treasury claimed that a request to authorize an excess of the kind in question should be made in good time, so as to give the Treasury "an effective voice in determining "whether the excess is to be incurred or not, and how it is to be met." The Admiralty letter contained no allegation as to the necessity or urgency of the expenditure which had led to the two deficits. Moreover, the excess expenditure had already been incurred, and a Minute of the Accountant General of the Navy had stated to the Board of Admiralty in February that "it will be desirable at as early a date as "possible to obtain Treasury sanction for the transfers of surpluses on "some Votes to meet the deficits on others."

12. Your Committee have inquired into the explanations given in the Appropriation Accounts, that the greater part of these deficits were incurred "to replenish stocks." The Director of Stores and the Director of Victualling respectively admit the truth of the criticisms of the Comptroller and Auditor General, and state that, although the purchases were for stock, they were not to replenish stocks that were too low. The explanations given in the Accounts are therefore incorrect.

13. In conclusion, your Committee can only trust that, after the notice that they have taken of the grave irregularity which has occurred, the Admiralty will be careful in future to comply with the conditions imposed upon them by the Appropriation Act, and to adhere strictly to the course of procedure prescribed by the decisions of the House and its Committees, and particularly that they will inform the Treasury at the earliest possible date of any probable excess on a Vote. These recommendations, as to the course which should be pursued in future, are applicable to the Military as well as the Naval Department, although it is only upon the accounts of the latter that the point has this year arisen.

The Treasury, having achieved the object of bringing this particular case to the attention of your Committee and of Parliament, will doubtless now consider whether its authority may not be given for the use that has been made of the surpluses. In any case, the sanction of the House to the proceedings will still be needed, in accordance with the Appropriation Act.

(4.) *My Lords agree with the Committee that the end which this Department had in view has been attained. They believe that the comments and injunctions of the Committee, together with the regulations which they are about to lay down in this Minute, will prevent a recurrence of the irregularity, and warrant them in giving the present authority to include the two deficits in question in the resolution submitted to the House this Session, approving of the application of surpluses on certain Navy Votes to the defrayment of excesses on other Navy Votes for the year* 1887-88.

(5.) *In order to carry out the wishes of the Committee that the conditions imposed by the annual Appropriation Act, and the procedure prescribed by decisions of the House and its Committees may be more strictly complied with in future, my Lords proceed to lay down the*

following regulations for the guidance of the War Department, as well as of the Admiralty, which they think will meet all the different cases of excess that are likely to occur upon Army or Navy Votes.

(6.) *Excesses on Votes (a) may be caused by an addition to establishments, or some new work, or an extension of programme, or some totally new service, the necessity for which only becomes evident after the estimates of the year have been closed, and which would require Treasury sanction as a new expenditure, whether causing an excess or not; or (b) they may be caused by an under-estimate of the cost of current services, or an over-estimate of current appropriations in aid in the year, such as, but for its causing an excess, would not need special submission to the Treasury; or (c) they may be incurred, deliberately, at the end of the year, because, amongst other reasons, there are savings on other Votes available to meet them. These three classes of excesses require somewhat different treatment.*

*I.—Excesses arising from unexpected Increases or New Services.**

(7.) *As soon as the spending Department is satisfied that the new expenditure cannot, without detriment to the public interests, be postponed until Parliament has provided for it in the usual manner, that Department should submit the same in writing to the Treasury with a full description of the circumstances which render it necessary. The Treasury will then decide whether, apart from any question of adequacy of savings, the nature of the service is such as to require, for constitutional or other reasons, that Parliament should be consulted before the expense is incurred. Supposing the Treasury to decide that the expense may be incurred without the previous submission of an Estimate to the House, the method of procedure will depend in part on the period of the year.*

(8.) *If the Vote to which the expenditure is chargeable has not yet been taken, the Minister who will have charge of it when taken in Committee of Supply should at once lay upon the Table of the House a statement of the additional expenditure sanctioned by the Treasury, explaining that it is proposed to defray it out of savings on other Army or Navy Votes if possible, in which case a Minute will be presented to the House before the end of the financial year, specifying the exact savings that are to be employed for the purpose, but that, should this mode of defrayment prove impossible, a Supplementary Estimate will be presented for it.*

(9.) *If the Vote to which the expenditure is chargeable has been already taken, no opportunity is likely to occur of informing the House of it until the time arrives for presenting either a Supplementary Estimate or a Minute in accordance with the Resolution of 4 March 1879; and meanwhile the expenditure may be incurred if the Treasury approves.*

II.—Excesses caused by an under-estimate of Expenditure or over-estimate of Appropriations in Aid.

(10.) *These have very commonly been submitted for* ex post facto *sanction only, after the close of the year, but my Lords agree with the Committee that, by the exercise of care and foresight, they might be in a considerable measure removed from the category of unforeseen excesses. With this view my Lords request that, not later than 21 February in each year, a careful review may be made of the progress of expenditure out of each Army and Navy Vote; and as accurate a forecast made as possible of the surpluses and deficits that will be shown*

* *See* Third Report, 1891, para. 14, printed at p. 278, for Committee's approval of the rules in paras. 7 to 9.

by the account of the year. The probable deficits should then be reported to this Department, not later than 7 March, with full explanations of their causes, and the savings probably available for meeting them should be also stated and as fully explained. Care should be taken at the same time to compare the probable out-turn of Appropriations in Aid with the Estimate, in order, not merely that any deficit may be allowed for, but that any net excess in the total of such receipts may be abated from the surpluses of Exchequer Grants available for meeting excesses of expenditure in the manner shown in the Treasury Minute of 14 March last (Sessional Paper 78 of 1889.)

(11.) *My Lords, if satisfied with the explanation given, will then cause the requisite Minutes to be prepared and presented to the House, authorizing the temporary defrayment of excesses out of savings.*

(12.) *The Printing Committee of the House will doubtless take note of the opinion expressed by the Public Accounts Committee, in agreement with that of the Army Estimates Committee, 1888, that these Minutes should be "printed and circulated."*

III.—Excesses incurred because Savings are at hand to meet them.

(13.) *This class of excesses is viewed by the Comptroller and Auditor General, the Public Accounts Committee, and the House of Commons with considerable jealousy. In their present Report the Committee allude to the inclination of a Department to find some object on which to spend voted money rather than surrender it to the Exchequer; and the Comptroller and Auditor General states in his Report, with regard to certain surpluses employed in aid of Purchase Votes, that instead of being so used they ought to have increased the Sinking Fund for the reduction of the National Debt. He further says that no Public Department having larger funds at its disposal for one Vote than are requisite for the service of the year has any right to spend the surpluses on another Vote, even for the purpose of effecting a saving in the succeeding year, except under the conditions laid down in the Appropriation Act.*

(14.) *My Lords agree with the Committee and the Comptroller and Auditor General that, before any excess of the character now under consideration is incurred, it is essential to observe the statutory condition of submission to the Treasury, in due time, with proof that some definite public detriment will ensue if the excess be not incurred.*

(15.) *Circumstances may arise in which the fact that savings have accrued on one Vote may appear to the spending Department to be a justification for proposing to incur, with Treasury sanction, an excess upon another Vote. For instance, a Vote for contract services may show a large saving through the failure of contractors to keep their engagements, and this failure may throw an unexpected charge on the succeeding year for which it is too late to provide in the Estimates of that year. If an equivalent excess be incurred in the expiring year on a Vote for non-contract services, the charge for those services in the succeeding year may possibly be so far lightened as to counterbalance the additional charge thrown upon that year for contract services; and an adjustment of burdens of this kind may be pleaded to be expedient in the public interest as well as substantially consonant with the intention of Parliament. Again, the condition of the market, or of stocks in hand, may be such as to make purchases, out of any funds available, so highly desirable at a particular moment that postponement would entail a distinct public detriment.*

(16.) *But it must be remembered, in the cases supposed, that Parliament has committed the duty of determining whether an excess*

is justifiable, not to the spending Department alone, but to the spending Department in concert with the Treasury, and that the former Department is bound to consult the Treasury in good time, i.e., early in March, if not before, so as to give this Board an effective voice in determining whether the excess is to be incurred or not, and how it is to be met.

(17.) *Whilst my Lords hold that cases of the foregoing description afford fair matter for consideration, they are of opinion that the occurrence of them should be rare, and that very clear evidence of public expediency should be required by this Department before sanction is given.*

(18.) *My Lords feel assured that, if the foregoing regulations are observed, no difficulty will be found in complying with the conditions laid down by the Appropriation Act, and that the automatic excesses requiring* ex post facto *sanction when the Appropriation Account is made up, will be reduced to a minimum.*

(19.) *The Comptroller and Auditor General remarks in his Report that the Treasury practice regarding these automatic excesses does not appear to be warranted by the annual Appropriation Act; but my Lords are glad to see that the Committee do not recommend either an alteration of that practice or an amendment of the Act. An unforeseen excess discovered after the event is rightly submitted to this Department for my Lords' judgment upon it, and for that temporary covering sanction which is necessary for the guidance of the Comptroller and Auditor General and the Public Accounts Committee in dealing with the Appropriation Accounts, and for ultimately including the excess in the Resolution submitted to the House. Although, when once the money is spent, the opportunity of antecedent financial control has passed, yet the Treasury can still exercise its function as the Department generally responsible for financial order, and can determine whether or no Parliament ought to be asked to give its final sanction to the defrayment of the excess out of savings.*

(20.) *My Lords would add, in conclusion, that the dates prescribed in the 10th paragraph of this Minute must not be regarded as relieving the spending Departments from the obligation, pointedly referred to by the Committee, of informing "the Treasury at the earliest possible date of any probable excess on a Vote."*

Advances to Contractors.

14. The practice of making advances to contractors which were not claimable under the specific conditions of their contracts is another subject on which remarks have frequently been made by Committees of Public Accounts.

In 1883 the opinion was expressed that "the exercise of this power "should be carefully watched, and as far as possible confined to special "cases where, although the instalment is not due, the advance has been "really earned." The Treasury consider a special case as established when the work done, for which a payment is proposed to be made at an earlier date than is named in the contract, is work for which Parliament has provided in the grant for the year; so that if the money were not paid the charge "would be thrown from one year, in which "provision has been made, into another year in which provision for "the work has not and could not have been made."

The Public Accounts Committee last year expressed their concurrence with this view.

19. Your Committee heard with satisfaction the acceptance by the Financial Secretary of the Admiralty, in his evidence, of their view that the Comptroller and Auditor General is entitled to any information

enabling him to judge whether advances to contractors have been according to rule but, subject to the exception already made for special cases, your Committee strongly disapprove of advances not claimable under contract; they are irregular in themselves, and are only made to avoid the surrender of a surplus to the Exchequer.

Treasury Letter to Admiralty, dated 25 September 1889:—

My Lords think it inexpedient that the Board of Admiralty should be precluded from paying for goods completed and held at their disposal by contractors, even if not actually delivered, or for portions of work certified by a competent officer to have been finished, provided no excess be caused by the payment, and no violation of the terms of a contract be involved. A contractor may not be in a position legally to enforce a payment, and yet the payment may not be inconsistent with his contract.

It is advisable so to word a contract as to admit of earlier payment for earlier work, without enabling the contractor to enforce such payment. No doubt the power of advancing may be abused, and its exercise is properly watched by the Comptroller and Auditor General; but it is to the public advantage that money voted for a particular purpose, and actually earned in the fulfilment of that purpose, should be paid away for that purpose, instead of being surrendered to the Exchequer.

My Lords agree with the Committee that every information should be given to the Comptroller and Auditor General that he may require to enable him to judge whether advances are according to rule; but they venture to think that the Committee are somewhat too strict in holding that all advances "not claimable under contract are irregular in themselves, and are only made to avoid the surrender of a surplus to the "Exchequer." Although the payment may be made at an earlier date than is named in the contract, it may be quite regular, and may have been fairly earned.

But whenever the proposed advance will cause an excess, either on a subhead or a Vote, or is irreconcilable with the terms of a contract, or involves the bringing into charge in the expiring year a service for which provision has been deliberately made in the Estimates of the succeeding year, previous Treasury sanction should invariably be sought.

FOURTH REPORT, 1889. H.C. 259.

Treasury Minutes, 11 December 1889 and 6 January 1890.

Army Appropriation Account.

Stores supplied to Egyptian Troops at Suakim.

2. The Committee of Public Accounts last year reserved their opinion, pending investigation of the subject by the Treasury, on a transaction which had resulted in a larger contribution out of Imperial funds, towards the military expenses of the Egyptian Government in 1886-87, than had been stated to Parliament when the claims of the Egyptian Government were settled. Your Committee are now informed that the value of the stores which had thus increased the contribution has proved less than had been supposed, amounting to £14,454. The fact that stores to such an amount had been provided should have been communicated to the Treasury so that this might have been taken into consideration in settling the claims of the Egyptian Government.

T.M. 11 *December* 1889. *The Secretary of State will see that the Committee agree with my Lords that notice of this expense ought to have been given to the Treasury when the Imperial contribution towards the military expenses of the Egyptian Government in* 1886–87 *was under discussion.*

VOTE 6.—YEOMANRY CAVALRY.

Treasury Sanction for Changes in Regulations.

6. In connexion with certain relaxations of the regulations under which yeomanry pay has been issued, the Treasury claims that modifications which tend in any material degree to increase the public expenditure should be submitted to it before the Regulations are thus changed. Your Committee trust that the War Office will recognize that it is for the public interest that this claim should be admitted. The necessity for consulting the Treasury on a temporary relaxation or variation of conditions of pay is not disputed. The importance of Treasury sanction seems even greater when such a change is intended to have permanent effect.

The question raised here was whether the Secretary of State has unlimited discretion to alter details in the Yeomanry Regulations, without Treasury concurrence, so long as they do not affect rates of pay or allowances approved by the Treasury; and the Committee support the contention of this Department that all modifications tending in any material degree to increase the public expenditure ought to be submitted for previous Treasury concurrence.

My Lords would point out how completely the statement of the Comptroller and Auditor General, " that Treasury control over rates of " pay and allowances would be seriously impaired if these rates may be " granted on less stringent conditions than those brought before their " Lordships when approving such rates," agrees with the argument of their letter of 31 *August* 1889, *respecting the draft warrant by means of which the Secretary of State proposed to take power to alter conditions apart from rates.*

VOTE 12.—SUBHEAD D.—WAGES.

Manager and Assistant Managers.

7. The pay of a manager and of assistant managers receiving £6 10*s.* a week, is included under the head of wages. The superintendent of a factory seems now to have power to appoint such persons, and decide what pay they shall receive. Your Committee were informed that the Secretary of State thinks that there should be some limits as to their rates of pay. Formerly, when managers and assistant managers were permanent officers, their salaries were approved by the Treasury, who should, in your Committee's opinion, have a voice in determining the limits of expenditure for servants receiving such high remuneration, whether in the form of salary or weekly wages.

My Lords are still waiting for a reply to their letter of 27 *October* 1888, *in which they proposed that these officers should be regarded as belonging to the " Intermediate class " between salaried and wage-paid men, for whom a scale and definite number should be fixed in consultation with the Treasury. The Committee would appear to consider this proposal reasonable.*

VOTE 13.—*Half Cost of Defences at Aden.*

8. The Imperial Government undertook to share the cost of the special defence works at Aden equally with the Indian Government. The amount voted for 1887–88, namely £26,000, has been paid, without requiring vouchers, or a statement under specified heads of the total cost of the works up to a certain date.

Your Committee recommend that, in cases of this kind, the War Office should obtain such a statement, and furnish it to the Comptroller and Auditor General.

9. Your Committee elicited from the Accountant General of the War Office that the share borne by the Imperial Government for the year in question, viz., £26,000, was far in excess of half the expenditure. They feel bound to dissent from his view that this is of no consequence. They hold that, in the case of an agreement to pay half the cost of works extending over a long time, the periodical payments should approximate as closely as possible to half the cost incurred, and should be met by equal payments from the other contracting party.

The force of the Committee's recommendation that the instalments of this contribution should only be paid upon statements of actual expenditure under specified heads, does not seem to my Lords to be materially weakened by the fact that, under the decision conveyed in their letter of 21 August 1889, the contribution is to be limited to a specific sum instead of being one-half the total cost.

VOTE 15, SUBHEAD C.—REWARDS TO INVENTORS.

10. Your Committee recommend that the Appropriation Accounts should annually contain a statement showing in detail the amounts paid to various inventors.

The Committee recommend that future Appropriation Accounts should include a statement of the different rewards actually paid. My Lords may observe, in support of this suggestion, that such a statement is given in the Navy Appropriation Account, as regards a corresponding subhead for Gratuities, in the Navy Vote for Miscellaneous Effective Services.

VOTE 19, SUBHEAD C.

Interpretation of Royal Warrants.

11. Correspondence, consequent on the award of retired pay to a Staff Paymaster, and of a Chelsea pension, has been printed in the Appropriation Account. In both cases, objection was taken by the Comptroller and Auditor General to awards which appeared to confer the combined benefits of two or more Royal Warrants. Your Committee hold that, unless one Warrant purports expressly to amend the other, they cannot be read together so as to increase the amount of a payment which one Warrant, read alone, would authorize.

This view seems now to be accepted by the War Office.

My Lords are glad to record that the Secretary of State is in agreement with this Department as to the impropriety of such a combination, unless the terms of the warrants show that it is intended. When the Committee say that, "unless one warrant purports expressly to amend "the other, they cannot be read together so as to increase the amount "of a payment which one warrant, read alone, would authorize," my Lords think they intended, not so much to lay down a literal rule, as to express their concurrence in the view taken by this Department, that

conditions of payment are indissoluble, prima facie, from the rates of payments to which they are attached, a view intimately connected with my Lords' comments on paragraph 6 [*see p.* 231].

STORE ACCOUNTS OF THE ARMY.

Sale of Stores.

14. The general rule that stores should not be sold otherwise than by auction or public tender is one that should be as strictly observed as may be consistent with obtaining the best return. Any sales which it may be necessary to effect outside that rule should be under the sanction and control of strict regulations. Your Committee were assured by the Accountant General of the War Office that such conditions will be fulfilled in all sales under the new system.

My Lords would inquire whether any regulations have yet been made regarding such sales, in accordance with the suggestion of the Committee, and would be glad to see a copy of them in draft.

[*See* P.A.C. 2. 1895, 45–7, p. 359.]

CIVIL SERVICES APPROPRIATION ACCOUNTS.

*Statements of Total and Net Cost.**

31. Returns of the total cost of each Service have appeared in the Appropriation Accounts annually, since the Public Accounts Committee suggested, in 1879, that the total cost of each Service might be shown. A recommendation of the Treasury in 1880 resulted, with the approval of the Public Accounts Committee, in the addition of Returns of the Net Cost of each Service.

The Comptroller and Auditor General, in reporting that he has this year furnished these Returns in an abstract statement at the end of each class of the Accounts, raised the question of their utility, pointing out that they " are necessarily in the nature of Estimates formed by the " various Departments of the expenditure for other Departments, and " thus differ wholly in character from the verified figures " to which he certifies.

It was represented to your Committee, however, on the part of the Treasury, that these statements are valuable, and that such a record is needed of the approximate total and net cost, year by year, of each Service.

In 1880 the Public Accounts Committee were aware that absolute accuracy would not be possible; and although this cannot be attained, your Committee hope that the statements will be continued in the new form, with any modifications which may be agreed upon between the Comptroller and Auditor General and the Treasury.

T.M. 6 *January* 1890. *My Lords are glad to find that the Committee agree in thinking it desirable that the returns of total and net cost of each Service, which for some years have been added to the Appropriation Accounts, should not be discontinued. They admit the truth of the Comptroller and Auditor General's contention that these Returns differ in character from the figures of the Appropriation Accounts to which he certifies. At the same time some such information is much needed in order to exhibit with approximate accuracy the actual cost to the taxpayer of the several Departments of State; nor can these statements of actual expenditure be replaced by the figures now inserted in the Estimates of " provision made in other Estimates and on the Consolidated Fund," because of the necessarily very rough character of those*

* Similar statements were also appended to the Army and Navy Appropriation Accounts, but see footnote on next page.

figures, at least in regard to the several branches of the service. Moreover, the statements furnished by the Departments to the Comptroller and Auditor General are by no means open to a general charge of uncertainty; for example, the figures of pensions are matter of fact: the accounts of the Stationery Office are kept in great detail as against each Department; and as regards Building charges it is obvious that the sum to be charged against many of the Public Departments can be calculated to a very close approximation. The item relating to Postal expenditure is no doubt open to exception, but can be defended on general grounds. My Lords have no doubt of the Comptroller and Auditor General's care in giving only such information as is in his opinion the best procurable; and they hope that he will continue to supply these useful figures, adding any note or preamble which he may think necessary to protect his Department from being charged with more than its share of responsibility for them.*

CLASS I. VOTE 13.—SURVEYS OF THE UNITED KINGDOM.

Loan of Stores.

With regard to the question of the loan of stores to other Departments, I am to say that my Lords think that such loans should be made for definite periods, and that the borrowing Departments should be made responsible for the safe custody of the objects lent and for their return at the close of the agreed period. In default of such return, it will be the duty of the lending Department to make immediate inquiries.

CLASS II., VOTE 12.—EXCHEQUER AND AUDIT DEPARTMENT.

Audit of Account.

35. Last year the Public Accounts Committee stated that the Comptroller and Auditor General would make some proposal, which would have for its object the association with himself of an officer outside his Department to audit its accounts. Having considered various suggestions, your Committee recommend that the Auditor of the Civil List be associated with the Comptroller and Auditor General in the audit of the Accounts of this Department.

In deference to the recommendation of the Committee, my Lords have instructed the Auditor of the Civil List to associate himself with the Comptroller and Auditor General in the audit of the accounts of this Department, for which the Assistant Comptroller and Auditor is the Accounting Officer.

[Note.—In 1922 the Comptroller and Auditor General became the Accounting Officer, and ceased to give a separate certificate of the correctness of this account.]

VOTE 25.—OFFICE OF WOODS, FORESTS, &C.

Farming out Copying Work.

38. An irregularity in the case of two copyists, to whom work has been farmed out, has now been discontinued. The regulation, requiring a certificate that a payment made to a copyist is for work which he has done himself, should be strictly enforced.

CLASS IV., VOTE 1.—PUBLIC EDUCATION (ENGLAND AND WALES).

Administrative Responsibility.

46. A grant was paid to a school in Whitechapel, although the time-table had not been signed and was not approved. The following condition was attached to the payment: that " if the payment of the

* From 1922-23 the Statement of Total and Net Cost has been prepared by the Treasury and published separately. See Q 1742 of Evidence, P.A.C. 1924. (H.C. 38, 138.)

" said sum shall be reported by the Comptroller and Auditor General to " be an irregular and improper payment, and his decision shall be " sustained by the House of Commons," the amount shall be repaid by the committee of managers.

The responsibility should not, in the opinion of your Committee, be thrown on the Comptroller and Auditor General of discharging duties which are either those of the Department which makes the payment, or those of the Treasury, to whom the Department should apply in a case where the authority to make the payment is doubtful.

Under all the circumstances of this case, the technical objection to the payment may be waived, and it may be admitted as a proper charge on the Vote.

My Lords entirely concur with the Committee upon all the points to which they refer. They give their formal covering sanction to the payment to the Whitechapel School alluded to in paragraph 46.

CLASS VI., VOTE 1.—SUPERANNUATION AND RETIRED ALLOWANCES.

Age of Retirement.

50. Mr. Irving, late Resident Councillor at Penang, has been granted a superannuation allowance at the age of 56. Your Committee have to report that this appears to be an illegal payment. An error was apparently committed, as such an officer is not qualified under Section 10 of the Superannuation Act of 1859 for a pension until he attains the age of 60, unless on the ground of ill-health.

My Lords have undertaken that the breach of the law committed in the case of Mr. Irving of Penang shall not be repeated.

CLASS VII., VOTE 4.—CELEBRATION OF THE JUBILEE OF HER MAJESTY'S REIGN.

Competitive Tenders not invited.

51. On occasions of great public ceremonials a practice has prevailed of employing a certain firm to make the necessary preparations. Your Committee recommend that tenders should, as far as possible, be invited from more than one firm on such occasions.

My Lords agree with the Committee that on occasions such as that which gave rise to the Vote, tenders should so far as possible be invited from more than one firm.

REVENUE DEPARTMENTS.

VOTE 2.—INLAND REVENUE.

Losses by Fraud.

52. The Comptroller and Auditor General advises that, in all cases in which losses by fraud have been written off, particulars should be appended to the Appropriation Account. Your Committee trust that these particulars will annually be brought under the scrutiny of the Exchequer and Audit Office.

I am directed by the Lords Commissioners of Her Majesty's Treasury to request that you will in future append to the Appropriation Account of your Vote a brief statement of the particulars of all cases included in Subhead R. (Losses by Fraud, Default, and Accident) of the Vote for your Department.

APPENDIX TO FOURTH REPORT 1889.

FURTHER REPORT of Messrs. *Waterhouse* and *Mills*.

Dockyard Expense and Store Accounts.

May it please your Lordships, Treasury, 27 May 1889.

1. Referring to your Lordships' instructions, communicated to us in Mr. Barrington's letter of 22 May 1888, and to the preliminary Report which we made to the First Lord of the Treasury under date 7 July last, we beg to state that we have completed our inquiries upon the several points referred to us as regards the Dockyard Expense and Store Accounts, and have now the honour to submit the following further Report.

2. The questions referred for our investigation in Mr. Barrington's letter and the Treasury Minute of 18 May 1888, of which a copy was enclosed, were:—

(1) The manner in which the Store and Expense Accounts of the Admiralty are now examined.

(2) Whether the examination is complete and satisfactory, regarded only as an examination for the Head of the Department responsible for the expenditure.

(3) Whether there is any provision for a check on the accounts, independent of the Head of the Department who is interested in the expenditure for which he accounts.

(4) Whether the First Lord of the Admiralty should not have independent assurance that the expenditure is proper and the accounts accurate.

(5) Whether there be any deficiency in the existing system which, in our opinion, should be remedied.

(6) Whether the reductions in staff which had been suggested could be fairly carried out.

3. On the commencement of our investigation, we found that various changes had been introduced, or were in course of introduction, in the method of the preparation and examination of the Admiralty Store and Expense Accounts, involving alterations not only as regards the officers charged with the duties of preparing or examining the accounts, but also in the method of record and account-keeping. These changes may (as we mentioned in our preliminary Report) be stated generally as follows:—

(1) The transfer of the preparation of and responsibility for the annual expense accounts from the Department of the Accountant General to that of the Controller of the Navy.

(2) The allocation of the cost of labour to the various shipbuilding and repair accounts, not, as heretofore, on the information supplied by the professional officers themselves, but on that collected by officials specially appointed to watch and record the occupations of each *employé*.

(3) The adoption of a system of record of money value of stores received and dealt with, by which an important and independent check upon the storekeeper's records of quantities is secured.

(4) The abolition of the examination of the store accounts hitherto conducted by the Accountant General, upon the ground that an independent inspection and test audit of such accounts, as well as of the expense accounts, has devolved upon the Comptroller and Auditor General.

4. We proceed to give some particulars of these changes and to contrast the system now adopted for the preparation of the Dockyard Expense and Store Accounts with that which prevailed before the changes were made.

Transfer from Accountant General's Department of duty of preparing Expense Accounts.

5. The expense accounts of the dockyards, the object of which is to give the expenditure in wages and materials upon the ships that are being built or repaired, were, when under the charge of the Accountant General, prepared by officers of his Department, who, it is true, were independent of those responsible for the work, and might on that account be supposed to be specially qualified to prepare truthful records of expenditure.

6. In practice, however, the arrangement did not work smoothly or efficiently. The officers thus employed, serving under chiefs who could exercise no control or authority over the professional officers charged with the work of shipbuilding, were regarded by the latter as persons who were rather a drag and hindrance than an assistance in carrying out the work for which they were themselves entirely responsible; and in particular the Accountant General's officers were dependent upon the professional officers of the yards for the allocation of the expenditure and other information upon which the accounts were based.

7. Thus friction and delays arose in recording the general progress of expenditure, and it was asserted that the system failed as a means of promptly supplying to the officers in charge of the work the information necessary to enable them to see how far the actual expenditure was proceeding within the limits of the sanctioned programme and estimate. The professional officers therefore established, for their own objects, a separate, and practically a duplicate, record of shipbuilding expenditure.

8. When, however, this part of the work of account-keeping was assigned to a separate branch of the Comptroller's Department, that is to say, to officers wholly independent of the professional officers, though like them, directly responsible to the Comptroller, the friction between the two Departments was removed. The officers of the new branch of the Comptroller's Department, in arranging the system for the preparation of the annual accounts for Parliament, adopted a method of record and account-keeping which they knew would prove of the greatest practical value in the daily conduct of the work; and under this new system the accounts of the expenditure of wages and materials are so closely written up from day to day, that before the end of every week a statement of the expenditure of the preceding week, with all necessary detail, is ready for and is handed to the officers who are responsible for it. No reason or excuse can therefore now be urged for any duplicate account-keeping by a separate staff under the professional officers themselves, and this indeed is not permitted. The yearly summary of the dockyard work consists simply of the cumulated totals of the weekly abstracts brought forward from week to week; no burden of work being thus left to fall upon the staff at the yards at the close of the year. As the recording of the expenditure is closely kept up day by day, the former necessity for estimates of various kinds with regard to expenditure is avoided, and provision is made for the detection, as far as possible, of mere errors of allocation which may arise by clerical inaccuracies in the mechanical process of posting.

Use and Nature of the Expense Accounts.

9. As pointed out in our preliminary Report, the first use of the expense accounts is to furnish the Executive officers with information with regard to the expenditure from day to day taking place under their orders and supervision; the second and no less important use being to give the information required for the Parliamentary Blue Book, showing, in comparison with the sanctioned programme of the year, how the labour and stores provided for the Department have been expended or applied. It is necessary that the staff employed upon these accounts should be well acquainted with the nature of the work carried on in the dockyards; that the accounts themselves, while prepared by a staff independent of the Executive officers, shall furnish promptly all such information of current expenditure as those officers may need, and in the form necessary for their own purposes; and that no reasonable ground shall exist for distrust on their part as to the accuracy of the figures thus compiled. Enormous detail is involved in the preparation of these accounts. For example, at Portsmouth Dockyard alone, something like 32,000 separate postings of items of stores issued and of wages paid have to be made each week to the various shipbuilding and repair accounts to which they are chargeable; and it is only by a system of mechanical routine carried on under the immediate supervision of competent officers, and upon a method which practically proves the accuracy of the figures from day to day, that such accounts can be satisfactorily prepared. The very multiplicity of the entries and the number of persons employed upon them, in connexion with the circumstance that these persons are in no sense under the eye or orders of the professional officers, and have no interest whatever in the results of the figures which they record, practically preclude the possibility of any improper dealing with the figures, such as intentionally charging to the cost of one vessel an expense which should be borne by another; while the method adopted provides that the clerical accuracy of the work is proved in the aggregate. No outside examination of these enormous details is therefore, in our opinion, necessary, and in the circumstances described we fully approve of the change which has placed the preparation of the expense accounts of the dockyards in the charge of an officer who, while directly responsible to the Comptroller, is himself wholly independent of the professional officers of the same Department by whom the expenditure is incurred. This officer appears to us to exercise quite as complete and trustworthy an oversight upon the dockyard expense accounts as it was possible for the Accountant General to undertake.

Allocation of the Cost of Labour.

10. The second of the changes referred to is that which relates to the mode of ensuring, as is essential, a correct allocation of the cost of labour in the yards to the several ships or other works or purposes upon which it is employed. As has already been stated, the Accountant General, when the expense accounts were under his charge, was dependent for the information which governed this allocation upon the certificates of the professional officers of the yards, these being based upon records kept by the "leading men," who were directly under the control of those officers; and as these records of labour constituted a most important element in the figures which indicated whether the expenditure on particular ships or works had been kept within the limits of the estimate or authority, in other words, whether the professional officers themselves had taken due care to comply with the instructions of the Admiralty; it was held that this method of arriving at the distribution of the charges for labour was not upon a satisfactory footing.

11. There are three systems of payment for work at the yards:—

(1) Day pay.
(2) Task and job.
(3) Tonnage.

The changes already made relate to day pay only, which, however, represents by far the largest proportion of the labour charges. After the transfer to the Comptroller's Department of the business connected with the expense accounts, a staff of men was instituted whose sole duty it is to keep a record of the labour of the men on day pay. These men are called "recorders of labour"; they are directly responsible to the Inspector of Dockyard Expense Accounts, and are entirely independent of the professional officers. It is their duty to visit every man at his work twice a day, and to record, in books specially prepared for the purpose, the number of hours he is employed at each description of work. At the end of each week these books are deposited in the Expense Accounts Office (separate books being used for this purpose for alternative weeks), and the time so recorded is priced out at the rates applicable to the several men, and the amounts so ascertained are posted to the accounts of the various ships or other works chargeable with the same. At the same time the total amount of the day pay for the week, thus arrived at, is checked against the totals of the wages sheets which have been prepared in the Cashier's Office for the Accountant General upon the entirely independent basis of the time-keeper's record of the actual attendance of the men in the yard, and upon which the actual payments to the men are made.

12. We can suggest no simpler or better method for securing a trustworthy allocation of the cost of labour to the various works, so far as relates to the day pay. We are informed that though objection was raised to the employment of these recorders of labour when they were first established, the system is found to work satisfactorily. Any risk of collusion between the recorders and the workmen is as far as possible provided against by changes in the districts or men visited by them, and also by the occasional personal oversight of the Civil Assistants of the yards. The system further operates as a check against any employment of men upon unauthorized work.

Task and Job.

13. The process just described is not applicable to the two other methods of payment for work, viz., task and job, and tonnage. In the first of these cases the work to be paid for depends upon statements by men called "measurers." These men are subordinate to the professional officers, and are in this respect in the same position as the "leading men" who formerly furnished the information upon which the day pay was allocated. Their functions are to ascertain the quantities of work performed by men, or groups of men, working under this system; to specify the particular rates in the authorized schedule of prices at which the work is to be priced, and to compute the amount earned by the men collectively, and distribute the earnings in detail. The computations of the earnings and their distribution are checked in the Expense Accounts Office, but no check appears to be applied as regards the quantities of work stated to have been executed, or the reference to the schedule of prices upon which the computations are based.*

* See also P.A.C. 3. 1891, 48–9, p. 281.

Tonnage.

14. Payment for piecework by tonnage is based upon the weight of material, such as iron plates, built into the ship. In this case also the basis of the computations, which are alone checked in the Expense Accounts Office, is accepted upon the statements of persons subordinate to the professional officers. We should, however, add that this third system of payment for work is at present only on trial.*

15. It is, we believe, admitted that it is quite practicable for arrangements to be made which would enable the Expense Accounts Branch to apply a more effective check to the pay for labour under these last named systems. We agree in this view, and think that measures should be taken for that purpose.

Store Ledgers and Stock Valuation Account.

16. We proceed to notice the system of account-keeping of stores, which, owing to the enormous variety of articles in use at the dockyards, is attended with considerable difficulties. The storekeepers at the yards keep records of the *quantities* only, not of the *values*, of the numerous stores which are received and issued. The proper form of check applicable to such accounts of quantities consists in ascertaining, (1) that the quantities of the various articles delivered by contractors, and paid for by the Accountant General, are accurately brought to charge in the store ledgers; (2) that the quantities stated to have been issued out of store are supported by properly authorized and receipted requisitions; and (3) that the resulting balances of quantities assumed to remain under charge of the storekeeper are from time to time verified by actual survey or inspection. For the mere purpose of an ordinary check upon a storekeeper nothing more is required, and the *money value* of the stores dealt with (when once the equivalent quantities have been brought on charge) might be, as in fact for storekeeping purposes they have been, disregarded.

17. The Expense Accounts, on the other hand, are concerned only with the cost of the work for which the stores are used, and these records therefore pay no regard to quantities as such. In 1864 an attempt was made in the Expense Accounts Branch (then under the Accountant General) to keep what is called a "Stock Valuation Account," i.e., a record in money value of all stores received and issued, but the account was discontinued in 1879 as not being based on a sufficiently accurate method to be of practical use.

18. The Expense Accounts Branch has, however, kept records of the value in the aggregate, at invoice prices, of the stores purchased, and of the total value, at rate-book prices, of the stores issued. But until recently no attempt was made to record the values of stores in detail, i.e., under the very numerous separate heads under which the storekeepers' ledgers necessarily keep a record of quantity.

19. The attempt has now been made by establishing an amended form of Stock Valuation Account. It was, in the first instance, proposed to lessen the details of this process by adopting a system of grouping certain similar classes of stores, but it was found that the result would not be satisfactory, and it was determined to keep in the Expense Accounts Office ledger accounts of the money values of stores dealt with, under precisely the same heads of articles, and corresponding in all respects with the accounts of quantities in the storekeepers' ledgers. It was important that a practical working test of this proposal and of its cost should be made before giving general effect to it, and at

* See also P.A.C. 8. 1891. 47, p. 284.

our suggestion, therefore, the Admiralty directed that it should be experimentally tried at Portsmouth Dockyard for three months. The result was quite satisfactory, and, accordingly, the system was brought into full operation at the whole of the dockyards on 1 April last, and has since been carried on without drawback.

20. We are positively assured by the Inspector of Dockyard Expense Accounts that no practical difficulty can arise to interfere with the work being continued, and that though it involves a largely increased amount of detail, a very inconsiderable addition to the present clerical staff at the yards (say at a mean cost of 700*l.* a year) will efficiently provide for the duty.

21. We should mention that the Stock Valuation Account is kept at "Rate-book prices," which are periodically adjusted so as to represent a close approximation to the current value of the stores. In the Expense Accounts as hitherto prepared large differences arising between the total cost price of the articles bought and the total rate-book price at which they are taken into stock and issued have been unstated and unascertained. Under the new system this defect will be remedied. The Stock Valuation Account will exhibit in summary how the stores purchased have been accounted for, what value has been expended during the year upon the various works, and what value remains in hand. This last total will be capable of comparison and should agree with the list of quantities prepared by the storekeeper and priced out by him at the rate-book prices. Without such an account of stores in money value no record of dockyard expenditure would in our opinion be complete or satisfactory.

Abolition of Accountant General's check of Store Ledgers.

22. We now come to the point of the abolition of the check of the Accountant General upon the storekeepers' books.

The store ledgers, which, it must be still borne in mind, record quantities only, are kept in duplicate, one set by the storehousemen in actual custody of the stores in the respective buildings in which they are kept, and the other by the clerks in the office of the storekeeper himself; the duplicate entries being made from the same documents or from press copies thereof. This duplicate method of record is considered to be more convenient for the purposes of the storekeeper's check upon the storehousemen than a system of direct examination of the entries in the books of the latter; and though we have been disposed to entertain some doubt upon this point, it is not, upon the whole, of such importance as to lead us to press our opinion, subject to the remark (to which we may again have to allude) that the practice must be understood to serve the purpose of the storekeeper only, and not to afford any check upon that officer himself.

23. The Accountant General's officers at the dockyards formerly checked the entries in the storekeepers' ledgers, and they further took part with the officer representing the storekeeper in the survey or inspection of the actual balances of stores, and in the comparison of these with the balances shown by the storekeepers' ledgers. Of these duties the Accountant General was relieved in 1886, and there has since been no independent departmental examination of the storekeepers' books. Some such independent examination would, in our opinion, certainly have been necessary but for the establishment in the Expense Accounts Office of the extended form of Stock Valuation Account which we have described.

24. The invoices of articles supplied by contractors, which create the debits of quantities in the storekeepers' ledgers, are priced by the

storekeeper at rate-book prices, and the value checked and recorded therefrom in the Expense Accounts Office; while the money value, at rate-book prices, of stores issued by the storekeeper, is entered on the issue notes which support the credit entries in his ledgers; and these original documents form the basis of the record, both of quantities in the storekeepers' books, and of money values in the Stock Valuation ledgers.

25. At the close of each quarter the balances, both of quantity and value, will be struck, and these can be from time to time compared to ascertain that the balance of quantity at rate-book prices agrees with the balance of value.*

26. It will be obvious, then, that the Stock Valuation Account, in addition to its use in relation to the Expense Accounts, constitutes a substantially complete means of check upon the several balances of quantities shown in the storekeepers' ledgers, and therefore answers the purpose of a separate examination of the storekeepers' books. We do not think that anything further in this direction, within the Admiralty itself, is called for.

27. We understand that a proposal was at one time (if it is not still) before the Admiralty to transfer to the central office of the Director of Stores in London the duplicate store ledgers now kept in the offices of the storekeepers at the yards, upon the ground that better security would thus be taken against possible collusion between the persons keeping the ledgers in the storehouses and storekeepers' offices, respectively. Theoretically there might have been something to be said for the proposal, except for the fact to which we have before alluded that, as the result of other changes, the ledgers proposed to be transferred are only of use to the storekeepers as a convenient means for their own examination of the storehousemen's books, that they constitute no check upon the storekeepers themselves, and that the real check upon both them and the storehousemen is now effectively provided through another department of the Comptroller's Office. Even were it otherwise we should see serious objections to the course proposed.

28. We believe that the work would be greatly retarded by the large amount of correspondence and references to which mere clerical errors and trifling discrepancies (readily settled on the spot) would inevitably give rise. And further, an enormous number of issue notes and other documents would have to be transmitted backwards and forwards at considerable trouble and cost. In no case do we think that any advantage would be gained which would outweigh the considerations on the other side; but in the existing circumstances there can scarcely, we should suppose, be any question upon the point. Indeed we are not clear that it may not hereafter be found that the storekeepers' duplicate ledgers can be altogether dispensed with.

29. We have shown that in place of such examination of the storekeepers' books as was formerly exercised by the Accountant General's officers, a system has been established by which security will be taken that all stores paid for are brought on charge, and that all issues for which the storekeepers take credit are properly vouched and accounted for in money value. It remains for the department to be satisfied in regard to the verification of the balances of stock, in which the Accountant General's officers formerly assisted.

Stocktaking.

30. This survey, or verification of the stores by actual inspection, for the purpose of comparison with the balances which the storekeepers'

* See P.A.C. 8. 1891. 51, at p. 285.

ledgers show as remaining in their charge, is in fact the keystone of the arch upon which any proper system of check upon store accounts must rest. In the Treasury Minute of 15 November 1886 [*see pp. 187–90 ante*], which lays down the conditions agreed upon for the conduct of the independent audit or inspection of store accounts by the Comptroller and Auditor General, it is stated that that officer will take no part in the process of actually verifying stock, but will accept on this point the certificates of properly constituted boards of survey or stocktakers, subject to any criticism which in his opinion the regulations or arrangements of the Departments for this purpose may invite; and we may remark that this course is in accordance with the practice in regard to the audit of the store accounts of commercial concerns.

31. It will be seen then that it is of the first importance that the arrangements for stocktaking are such as cannot be reasonably impugned or challenged. It is quite proper that a representative of the storekeeper should be joined with the independent officers who take the stock, so that the result may be jointly certified on behalf of the officer directly concerned; but it is clear that the one essential condition to the reality and trustworthiness of the check is wanting if the persons employed upon the duty are solely those who are immediately subordinate to the storekeeper. This has, however, we believe, been the practice since the representatives of the Accountant General ceased to share this duty. It will no doubt be admitted that a remedy in this matter must be provided.

32. It is not necessary that highly paid officers should be employed in the details of this duty; but they should be other than immediately subordinate to the storekeeper of the particular yard. No doubt there may be legitimate degrees of severity in enforcing the rule. There are, for example, a number of articles in the dockyards which can scarcely by possibility be fraudulently dealt with, and less rigour may reasonably be permitted in these cases, which are, however, exceptions and can easily be defined. The important point is to ensure that the vital nature of the principle laid down is fully recognized and duly acted upon.

33. We may also remark that a most useful effect would result from occasional visits to the yards of officers of the Department of the Director of Stores in London for the purpose of testing (apart from the ordinary procedure) the stock of a few articles selected at hazard, or for reasons which the occasion may suggest. This extra test, however, though to a certain extent casual and uncertain, should be carried on systematically and continuously.

Accountant General should review Results shown by Expense Accounts.

34. With reference to the position of the Accountant General in regard to the accounts under notice, we stated in our preliminary Report that, as implied in the title of his office, it would be natural that he should supervise, and to a certain extent be responsible for the accounts of all Admiralty Departments; but that considerations of great weight had led to the Dockyard Expense Accounts being put under wholly separate control; and we expressed our opinion that it is not now desirable to alter the arrangement. We adhere to that view; but although we hold that no justification exists for an examination or test of the details of the accounts by his own officers, he should himself undoubtedly be able to render very valuable assistance to the Financial Secretary by such a critical review of the accounts rendered by the Expense Accounts Branch, both during the progress of the expenditure of the year and at its close, as may bring to light any important

results indicated by the mass of figures which the reports accompanying the accounts may have failed to notice or explain.

35. We understand that our view of the relation of the Accountant General to these accounts, as expressed in our preliminary Report, has been adopted by the Admiralty, and that, with your Lordships' concurrence, an Admiralty Order giving effect to it was issued in September last. Under that Order, monthly returns which are prepared for the information of the Financial Secretary with respect to the Store and Expense Accounts, together with the Reports thereon of the officers responsible for the accounts, are required to be referred to the Accountant General for such observations as he may have to offer for the assistance of the Financial Secretary.

General Conclusions.

36. Summarizing the result of our inquiry, we are able to report generally, and subject to those points which we have noticed as requiring attention, that, in our opinion, the method in which the Store and Expense Accounts of the Admiralty are now kept, as the result of the changes described, is well adapted to and sufficient for the purpose of securing accuracy and regularity of account.

37. We can further state that we are satisfied that those changes have resulted in a very substantial saving of cost, notwithstanding the expense attendant upon the amplification of the Stock Valuation Account, which has only recently been brought into operation, and which was not in the first instance allowed for.

38. It is no part of our duty to enter upon the functions which devolve upon the Comptroller and Auditor General for the independent satisfaction of Parliament. We have, however, intended to convey our clear opinion that, assuming one condition to be fulfilled, there is no necessity or justification for any outside examination of the mass of details of which the annual accounts will be built up, especially as such examination would only be possible at a very heavy expense. The condition to be satisfied is that the regulations are duly maintained which provide for the careful oversight and independence of the Expense Accounts staff; independence, that is, alike of the officers accountable for the custody and issue of the stores, and of those who are entrusted with the use of the stores and labour, and are responsible for the work of which these accounts record the cost. The nature of the work of recording these details is not one in which errors of importance can arise, the general accuracy of the individual entries being proved by the balancing which the double-entry system on which the books are kept permits. Errors of a purely clerical kind, in charging to one ship stores or wages which should be charged to another, are no doubt possible, and, of course, in principle the accurate appropriation of charge is extremely important; but, inasmuch as the individual amounts are with little exception small, such accidental errors are not likely to affect the total result, and any important errors of allocation are guarded against by the rendering of the weekly accounts to the various executive officers responsible for the work, who would be prompt to challenge any materially inaccurate charge increasing the cost of the work which they are directly interested in showing at as low a figure as possible.

39. The liability of the officers respectively responsible for the Store and Expense Accounts to the absolutely independent review of the Comptroller and Auditor General, for the information of Parliament, of the transactions represented therein, and their further liability to answer before the Public Accounts Committee for any defects or

irregularities which come under his notice, will afford a guarantee, which nothing else probably could make fully effective, that the higher departmental officers, who are answerable for the supervision of the machinery by which the regulations are meant to be enforced, shall keep that machinery in constantly efficient working order. It will also, no doubt, incidentally contribute to strengthen very much the control of the Admiralty itself in its administration of the service.

We have, &c.,
Edwin Waterhouse.
Richard Mills.

The Lords Commissioners of
Her Majesty's Treasury.

TREASURY MINUTE ON THE FOREGOING REPORT.

(9449–89.) 2 July 1889.

My Lords have before them a further Report by Messrs. Waterhouse and Mills, dated 27 May last, upon the recent changes in Expense and Store Accounts of the Admiralty, the leading points in which may be summarized as follows:—

I.—*The transfer of the preparation of, and responsibility for, the Expense Accounts from the Department of the Accountant General to that of the Controller of the Navy.*

This transfer is held to be justified, partly on account of the friction between the Accountant General's officers and the professional officers, on whom the former had to depend for information, but over whom the Accountant General had no other authority, and partly because the accounts were in too great arrear to be of use to the professional officers, who therefore had to keep duplicate accounts for their own purposes. The Expense Accounts are now prepared by officers well acquainted with the nature of the work carried on in the Dockyards, but yet wholly independent of the professional officers, although they belong to the same Department, and are all subject to the common authority of the Controller. The result is a removal of the friction between the accounts and the professional staffs, the avoidance of all delay, and therefore of the need for duplicate records, the accounts being made up weekly, less than one week in arrear, in the form most useful to the executive officers, as well as best adapted for the information of Parliament.

II.—*The allocation of the Cost of Labour to the various Shipbuilding Repair Accounts.*

The Accountant General had to depend on the professional officers for this allocation; but now, so far as regards day-pay labour, it is allocated by a distinct staff of "recorders of labour" directly responsible to the Inspector of Dockyard Expense Accounts, and quite independent of the professional officers, their record being checked by the totals of the wage-lists prepared from the timekeepers' record of actual attendance of men in the yard.

Messrs. Waterhouse and Mills approve of this change, but suggest that, as regards labour paid by task and job, or by tonnage, some more effective check on the allocation might be devised than exists at present.

III.—*Stock Valuation Account.*

By means of this account, in its recently amended shape, a record of the money value of stores received and issued is kept concurrently with the record of quantities kept by the storekeepers. Both records are based on the same data, viz., the invoices of stores supplied by contractors and the issue notes of stores issued, which show both quantities and their money value.

The Valuation Account is necessary for making up the Expense Accounts, but it also affords a complete check upon the storekeepers, and Messrs. Waterhouse and Mills consider that its existence not only supersedes the examination of the storekeepers' ledgers by the Accountant General's officers, but makes it unnecessary to transfer the duplicates of those ledgers to headquarters, as had at one time been contemplated, and may even justify the abolition of those duplicates which the storekeepers now keep as a check on the storehousemen, but which are no check on the storekeepers themselves.

The increase of cost caused by the revised Valuation Account is put at £700 a year.

IV.—*The Verification of the Balances of Stock.*

Messrs. Waterhouse and Mills concur with this Department in holding that this task should be always undertaken by a representative of the storekeeper and some quite independent officer, but should not be taken part in by the Comptroller and Auditor General. They also suggest the occasional visits of officers from the Department of the Director of Stores in London for the purpose of testing stocks of particular articles.

V.—*Functions of the Accountant General in regard to the Expense and Store Accounts.*

These, in the opinion of Messrs. Waterhouse and Mills, should be confined to criticism of the monthly and annual returns prepared for the information of the Financial Secretary to the Admiralty, which under the Admiralty Order of September last must be referred to the Accountant General. But they consider that this criticism may prove a very valuable assistance to the Financial Secretary.

VI.—*Conclusion.*

The conclusion at which Messrs. Waterhouse and Mills arrive is, that the changes which have been introduced should be maintained in force, and will result in much increased efficiency and a substantial saving in cost; and they further hold that, without prescribing what should be the functions of the Comptroller and Auditor General, there is no necessity for any outside examination in detail of the Expense and Store Accounts.

My Lords are much obliged to Messrs. Waterhouse and Mills for their valuable report, and, subject to any remarks that the Board of Admiralty may desire to make on particular recommendations, are prepared to accept its conclusion.

SECOND REPORT. 1890. H.C. 157.

Treasury Minute, 10 *January*, 1891.

ARMY APPROPRIATION ACCOUNT.

VOTE A.—*Excess on Indian Establishment.*

3. The Committee of Public Accounts reported in 1879 that in their opinion, Parliament should be informed by the Comptroller and Auditor General whether or not Vote A. (the Number of Men) has been exceeded. Consequently year by year a statement has been made by the Comptroller and Auditor General, in his Report on the Army Appropriation Accounts, comparing the actual with the estimated numbers of effectives for every month in the year.

This comparison is not confined to the numbers actually voted, namely, those "on the Home and Colonial Establishments of the Army,

exclusive of those serving in India," but extends to the Table which appears annually in the Estimates, and sets forth the "Number of Men of the Regular Army serving in India."

Seeing that the British forces serving in India are under the control of the Governor General, and are maintained out of the revenues of India, and not voted by Parliament, your Committee have only considered any increase upon the estimated forces in India, so far as such an increase might affect the numbers for the Home and Colonial Service.

No important effect seems to have been produced upon these numbers, during the year 1888-89, by the fact that, in every month except one, the Indian Establishment exceeded the numbers shown on the Estimates.

Your Committee recommend that these comparative statements should continue to be made annually by the Comptroller and Auditor General.

The Secretary of State will observe that the Committee desire the continuance of the comparisons hitherto made by the Comptroller and Auditor General between the estimated and actual numbers of men on the Home and Colonial establishments and serving in India, respectively.

VOTE 1.—*Monthly Pay Lists.*

4. The system of half-yearly pay lists which has existed since 1877, having then superseded a quarterly system, was open to obvious objections, namely, the long interval during which public money was not accounted for, and the difficulty and delay attending the recovery of sums disallowed.

After a trial in 1884, approved by the Public Accounts Committee in 1888, the system of Monthly Pay Lists for the Cavalry, Infantry, and Regimental Districts was introduced experimentally in the year 1888-89, and has since been finally adopted, with Treasury sanction.

One good result of the new system will be that audit will follow much more closely on the actual payments than heretofore.

Charge of Pay not Issued.

5. That these actual payments would be the basis of the Appropriation Account, to the exclusion of all moneys not really issued to the men, was naturally anticipated by the Comptroller and Auditor General. But your Committee learn that it is intended to charge the Account with the full-pay for each month, even if part has not been issued to the men.

This point seems to call for reconsideration, with a view to insuring, if possible, that the Appropriation Account shall not include sums which may be due but have not been paid.

The Committee suggest a reconsideration of the question whether only actual payments to the men are to be included in the Appropriation Account, instead of including the full amounts carried to the credit of the men in the pay lists whether paid or not.

The question was discussed before the Public Accounts Committee in 1881, 1882, *and* 1884, *and an opinion of the Law Officers of the Crown was obtained in favour of treating credits to soldiers as actual payments.**

Moreover, in 1884, *Parliament sanctioned, by Section* 14 *of* 47 *&* 48 *Vict. c.* 62, *the acceptance of the certificates of the paying officers in lieu of the receipts of the men.*

To confine the charge to actual payments would no doubt be more correct and, therefore, desirable, provided that it be practicable. But my Lords hope that, if the question be re-opened, due regard may be paid to the considerations of convenience which prompted the decision of 1884, *as well as to the arguments on the other side.*

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* See page 150.

Treasury Letter, 19 February 1891, to Comptroller and Auditor General (P.A.C. 3, 1891, Q. 550)— . . . . My Lords have informed the War Office that they are prepared to agree to the compromise suggested by the Secretary of State for War for meeting the wishes of the Public Accounts Committee in regard to the exclusion from the Army Appropriation Account of sums due but not paid to soldiers, so far as possible without undue inconvenience, and have accordingly requested that the aggregate of the balances due to the soldiers, as shown by each troop, battery, or company account for the month of March, may be credited in the books of the War Office to Vote 1, Regimental Pay, and be re-charged under the same head of service when brought forward into the April pay lists.

Manufacture by Ordnance Store Artificers.

10. The Comptroller and Auditor General found that manufacturing operations are sometimes carried on by Ordnance Store Artificers. It is admitted that manufacturing accounts should be kept in any case in which it is found necessary to employ such workmen on processes of manufacture.

My Lords presume that steps are being taken to keep Manufacturing Accounts whenever artificers are employed on processes of manufacture.

VOTE 12—WARLIKE STORES.

Form of Estimate.

15. The Estimate in 1888–89, for Vote 12, varies considerably from that of the previous year. The Estimate for 1887–88 was divided into 27 subheads; that for 1888–89, which, however, no longer provides for warlike stores for the Navy, contains six only. In 1889–90 the number has been increased to ten.

This change in the form of the Estimate, which is necessarily reproduced in the Appropriation Account, is attended with the following consequences.

The subheads in Part II. of the Estimates form the heads of Account under which the expenditure must be aggregated, and the examination of the Comptroller and Auditor General must verify the items making the total expenditure charged to each of the subheads. Treasury authority is also necessary for transfers from one subhead to another.

With regard to sums allotted to particular Services in Part III. of the Estimates, or in the Appendix, no like obligation rests upon the Accounting Department, or upon the Comptroller and Auditor General, unless by express requirement of the Treasury.

Hence, as a rule, the Comptroller and Auditor General does not check the amounts allocated in Part III. In some cases it would not be practicable for him to do so without keeping a record of the expenditure for himself. In other cases, where the Department itself records such expenditure, as there is no rule binding it to adhere to the sum set down in Part III., there is no sufficient object in verifying such records.

It will thus be obvious that a Department gains a far freer hand in the allocation of its expenditure by transferring items from Part II. to Part III. of the Estimates, and that Treasury control upon this expenditure is *pro tanto* diminished.

In conformity with the evidence given before the Army Estimates Committee, 1888, the details of expenditure transferred to Part III. of the Estimates have, for the most part, been furnished in the Explanatory Paper, No. 6, of the Account.

Your Committee consider that, so long as the subheads of this Vote remain in their present restricted number, the details in Part III. should continue to be verified by the Comptroller and Auditor General, as has been the case in the year 1888–89.

The estimate for Vote 12, 1888–89, *cannot be fairly compared with that for* 1887–88, *unless due regard be had to the very different areas covered by the Votes of the two years. The Vote for* 1887–88 *provided for sea as well as land armaments, and for the personnel of all the Manufacturing Departments, as well as for the matériel to be worked into stores, and for the completed stores procured from the trade. But Army Vote* 12 *of* 1888–89 *provided for the completed land armaments and warlike stores only which the War Department intended to buy, in the year, for their own use, from the Ordnance Factories or from the Trade, and for their inspection. The armaments and warlike stores for the Navy were provided for in Navy Votes for* 1888–89, *and the Manufacturing Departments and the matériel to be used in them were provided for in the Ordnance Factories Vote for* 1888–89. *The number of subheads* (27) *in the single Vote for* 1887–88 *should therefore be compared with that of the subheads* in the three Votes for 1888–89, *viz.*, 21, *which have since been increased to* 27. *But, although the numbers are now the same, the nature of the subheads was much more varied in* 1887–88.

The description given by the Committee of the effect of transferring a subdivision of expenditure from Part II. to Part III. of the Estimate is, on the whole, accurate, but it does not bring out the fact that the conditions governing both parts are entirely matters of arrangement between the Treasury and the Accounting Department, under the powers given by Section 23 *of the Exchequer and Audit Departments Act.*

The subheads of Part II. represent the heads of account under which, by Treasury direction, the Accounting Department will account for its expenditure in the Appropriation Account, and therefore of necessity in its own ledgers. But the subheads are far from being the only heads of account which the Treasury requires the Accounting Department to keep in its ledgers. They are the normal heads, and the Accounting Department can never keep less, and ought not to exceed the provision for each without Treasury sanction, and is obliged to explain the saving or deficit on each in the Appropriation Account. The Treasury, however, can and does require an Accounting Department to keep a record of expenditure, in many cases, under items in Part III., and often requires that its sanction should be obtained for excesses on such items, notably in the cases of the Army and Navy Works Votes, the Civil Works Votes, and in regard to items of personal remuneration generally. Further the Treasury requires, in various cases, that Appendices should be added to the Appropriation Account, showing the actual provision and expenditure under items in Part III.

Provided that the details of Part III. of the estimate of warlike stores continue to be verified by the Comptroller and Auditor General, my Lords understand that the Committee consider it to be unnecessary to increase the present number of the subheads of the Estimate.

Arbitrary Classification in Estimates.

16. The Comptroller and Auditor General points out that the items of anticipated expenditure under Subheads B.—E., as shown in Part III. of the Estimates, are there subdivided by vertical columns, headed respectively, "Equipment and Reserves," "Annual Maintenance," and "Repayment Services."

No attempt has been made to distinguish the expenditure under these subdivisions in the Appropriation Account; and it is stated, on

behalf of the War Office, that, though in the Accounts it would be extremely difficult, if not impossible, to make the division, which would be purely arbitrary, yet in the Estimates the columns so inserted are of considerable value as explanations.

The Treasury and the Comptroller and Auditor General, on the other hand, are of opinion that it is undesirable to insert in the body of the Estimates, even under Part III., any classification of expenditure which, not being susceptible of adoption in the Accounts, may probably be illusory.

Your Committee agree with this view. If the information given by the classification in question has any real value, it would be better conveyed by means of a footnote.

In furnishing details of estimated expenditure in the body of the Estimates, the Departments should avoid any classification which is admitted to be purely arbitrary.

The Secretary of State will, no doubt, adopt the suggestion of the Committee that the vertical columns, headed "Equipment and Reserves," "Annual Maintenance," and "Repayment Services," should be in future omitted from Part III.

Advance for Gunpowder.

17. A payment of £1,200, recorded against Vote 12 as a final payment, was an advance of 80 per cent. to a firm of contractors on the value of a supply of 400 barrels of gunpowder. The date of payment was 30 March 1889; but the whole of the gunpowder had not then been proved, and, when it was proved, 200 barrels were rejected as unfit for the Service. Eventually the contractors had to repay £75, as they did not supply more than the value of £1,125.

The Accountant General of the War Office gave his opinion that such advances were irregular, and should not be permitted.

Obviously they should not appear in the Appropriation Accounts as final payments.

My Lords agree with the Committee that an advance to a contractor on account of stores supplied, but not proved, ought not to be brought to charge as a final payment until the stores had been proved and passed.

THIRD REPORT, 1890. H.C. 177.

Treasury Minute, 7 August 1890.

REARRANGEMENT OF ESTIMATES.

1. In their First Report of this Session your Committee reported that letters had been laid before them, addressed by the Secretary to the Treasury to the Chairman of your Committee, upon rearrangements that had been effected in the Estimates for the Civil Services, the Army, and the Navy respectively, resulting in each case in a reduction in the numbers of separate Votes.

Your Committee reported their concurrence with the opinions which had been expressed in the Third Report of the Public Accounts Committee in 1888, advising that a Department would do well to propose, and the Treasury to insist upon, the postponement of the adoption of a new form of Estimates until the House of Commons or the Public Accounts Committee had been given an opportunity of expressing their opinion upon it, and pointing out that, if changes of form were held to require your Committee's judgment, it seemed only reasonable that

these should have been submitted to them (as in 1867 and 1881) before being actually adopted.

Your Committee, therefore, held " that proposals to alter the form " of the Estimates and number of the Votes . . . . should, in " the first place, be laid before the House, so as to enable the House " to examine them, and, if it should think fit, to refer them to the " Public Accounts Committee before an important change is adopted."

Your Committee further reported, " If the House should determine " to refer any proposed changes to your Committee they will be pre- " pared to consider them, so far as regards the proper functions of " your Committee, which relate to the Accounts and to the maintenance " of due Parliamentary control over expenditure.

" Your Committee do not desire to deal with any questions relating " to the voting of the Estimates in Committee of Supply. These seem " to them to be outside the scope of their duties."

2. Your Committee's First Report having thus brought the new arrangement of the Estimates, reducing the number of Votes, to the notice of the House, these changes were the subject of questions and answers in the House, and of some debate in Committee of Supply.

Subsequently, the Estimates were referred to your Committee by Resolution of the House and it became their duty, within the limits of their proper functions, which are defined in the extract above quoted from their First Report, to consider these changes, without, however, dealing with any questions which may arise in relation to the process of voting the Estimates in Committee of Supply.

Your Committee entered upon this duty with the understanding that they were free to consider the changes as if they had not been made, but had merely been submitted as a scheme for the future.

Representatives of the Treasury, War Office, and Admiralty, as well as the Comptroller and Auditor General, have been examined, and their evidence is printed in the Appendix.

Parliamentary Control over Votes.

3. In considering any new arrangement of Estimates reducing the number of Votes, the first point to be borne in mind is the fact that the amalgamation of two or more Votes confers on the Departments increased freedom in the use of the money that may be voted.

Money hitherto voted under three separate Votes, for three different objects, will, if included in one Vote, be applicable, without any fresh Resolution of Parliament, to all or any of the three objects. An excess on the Estimate for any one or two of the objects will not have to be submitted to Parliament for sanction, if it be met by a surplus on the remainder of the new Vote. Whereas every excess on a separate Vote is brought to the notice of the Public Accounts Committee, and is then submitted, upon their Report, in the form of an " Excess Vote " or Resolution to the House, and embodied in an Appropriation Bill, which has to receive the sanction of Parliament.

In the case of the Civil Services Votes, there is not even a temporary power in any Government Department of using a surplus on one Vote to meet a deficit on another; but such a temporary power, subject always to the presentation to the House of a Resolution subsequently embodied in the Appropriation Bill, is annually given to the Treasury, in regard to the various Votes for the Army, and also to those for the Navy, by a clause in the final Appropriation Act of each Session.

4. Your Committee hold that in every case where there is reason for maintaining Parliamentary control, to the extent of requiring that any excess over the money granted by Parliament for any particular

object or service should be submitted to the House, provision should be made for that service, as heretofore, in a separate Vote.

To substitute in these cases, for that Parliamentary control, a control of the Treasury, such as that Department now exercises over the application of money voted for one subhead to the use of another, would be a great change. Treasury control may be most usefully exercised in regard to the subheads of a Vote. But as regards transfers of money from one Vote to another, your Committee cannot recommend any modification of the existing law, tempered as it is, in the case of the Army and Navy Votes respectively, by means of the temporary power conferred annually on the Treasury by the section in the final Appropriation Act of the Session.

[*See Treasury Minute after para.* 5.]

Continuity of Estimates and of Accounts.

5. Another point of considerable moment in any alteration in the arrangement of Estimates is the importance of continuity, as regards the Classes, the Votes, and the details of one year's Estimates and one year's Accounts, in comparison with those of another year. It is essential to remember that the form and arrangement of the Accounts necessarily follow the form of the Estimates. In both Estimates and Accounts it is very desirable, from the point of view of Parliament, that there should be great facility for comparing one year's outlay on any head of expenditure with that of other years.

Cases have occurred when it has seemed best, in discontinuing the separate existence of a Vote, to break it up and distribute its contents among other Votes. In such cases continuity is destroyed, and comparison of one year with another can only be effected by a more or less laborious search, with the aid of the index and of an arithmetical sum. But where a general rearrangement is adopted for the purpose of simplifying the Estimates, and reducing the total number of resolutions to be proposed in Committee of Supply, great care should be taken to keep the contents of old Votes intact as far as possible. Where the old Vote did not contain subheads, it should itself be a distinct subhead of the amalgamated Vote; and where it did contain subheads these also should be preserved, and, if possible, the old Vote should reappear as a separate group of subheads within the items of Part II. of the amalgamated Vote.

The Treasury exercise a control necessitating a recourse to their sanction, before savings on one subhead can be used to meet deficits on others. This control is secured by Treasury regulations framed under the Exchequer and Audit Act. Practically, it has been used rigidly only in the case of the Civil Services Votes, in respect of which the power of thus sanctioning transfers from subhead to subhead is necessarily largely exercised by the Treasury. The figures for one year were given to your Committee as follows:—

"The year taken is 1888–89; the total number of subheads in the "Civil Services Estimates, as shown in the Appropriation Accounts, "was 1,142. Out of those the expenditure exceeded the estimate on "290, that is, in the case of about a quarter of them. That includes "new subheads opened with Treasury sanction after the Estimates "had been presented to Parliament. . . . . The gross total "amount of savings on subheads was £504,677, and the total amount "of excesses which were met by transfers out of savings on other "subheads was £126,841."

The Treasury will properly be unwilling, unless sufficient reason is given, to approve the proposal of a Department to reduce by amalgamation the number of subheads in a Vote.

My Lords agree with the Committee in holding—

(1) *That whenever there is reason for maintaining Parliamentary control to the extent of requiring that any excess on the money granted by Parliament for any particular object or service should be submitted to the House, provision should be made for that service, as heretofore, in a separate Vote.*

(2) *That it is very desirable, from the point of view of Parliament, that there should be great facility for comparing one year's outlay on any head of expenditure with that of other years; and, in consequence, that when a general rearrangement of Votes is adopted for the purpose of simplifying the Estimates, great care should be taken to keep the contents of old Votes as far as possible intact.*

The Committee rightly interpret the Treasury to be unwilling, unless sufficient reason is given, to reduce by amalgamation the number of subheads in a Vote. . . .

The reduction in the number of Civil Votes, as now approved, suggests the consideration of the present practice of this Department in sanctioning the application of savings upon some subheads of a Vote to meet excesses upon others. . . . My Lords observe with satisfaction that the Committee recognize the necessity of such transfers being made at the discretion of the Treasury.

Accounting Officers.

6. In amalgamating existing Votes, it is also important to avoid, as far as possible, any change which will transfer the responsibility of an existing Accounting Officer to another officer less immediately associated with the administration of the service for which the money is voted. A change of this nature would be contrary to the spirit of the first proviso of Section 22 of the Exchequer and Audit Act, and would place the Public Accounts Committee at a disadvantage; as it is their practice, on all important points which arise on an Appropriation Account, to seek from the Accounting Officer, who is responsible, the departmental evidence which they annually obtain. Evidence from an Accounting Officer more remote from the service in question would be often less valuable, and might not be a safe guide to your Committee in forming conclusions on the points at issue. Already it has been the practice of the Public Accounts Committee to examine the responsible officer of the Patent Office, instead of the Board of Trade official who acts as Accounting Officer.

7. Moreover, the Comptroller and Auditor General's queries upon an Account, and his letters to a Department, would be subject to similar disadvantage, and additional correspondence would be necessary, if he had to communicate with an Accounting Officer who was not closely connected with that Department and its administration, and who was, therefore, under the necessity of passing on most of the queries or letters to some other official more intimately acquainted with the questions raised.

My Lords acknowledge the force of the Committee's argument in favour of entrusting, as far as possible, the duty of accounting for Votes to the officers more immediately associated with the administration of the service for which the money is voted.

FOURTH REPORT, 1890. H.C. 273.

Treasury Minute, 10 *January* 1891.

Navy Appropriation Account.

Distribution of Payments to Contractors throughout the Year.

2. The Public Accounts Committee have frequently in past years, and especially in 1881, 1885, and 1889, called attention to the importance of carefully watching the periods of payments to contractors, so as to spread the expenditure more evenly throughout the year. Last year the Committee called attention to the fact that "out of a total of "£603,847 3*s*. 9*d*." expended on machinery for propelling, "a very "large proportion, namely £245,170 5*s*. 3*d*., was paid in March, and "of this amount £97,748 6s. 8d. was paid in the last three days of the "financial year." The Committee remarked that "postponements of "payments till the end of the financial year need to be watched with "care; and your Committee were assured by the witness who gave "evidence on behalf of the Controller of the Navy that he agreed "with this view. As this is a matter which has been the subject of "repeated Reports for some years past, your Committee trust that more "even payments will be made in future." The Treasury letter dated 25 September 1889, on the Report just quoted, stated that "My Lords "do not understand why these payments should not be spread through-"out the year as evenly as payments for ships building."

3. By the table which is appended to your Committee's present Report, it will be seen that, again in the year 1888–89, out of a total of £764,135 3*s*. 9*d*. expended on machinery for propelling, £254,080 11*s*. 10*d*. was paid in March; and of this amount £88,502 6*s*. was paid in the last three days of the financial year. Explanations were offered on the part of the Admiralty, which will be found in the evidence; but they do not satisfy your Committee that a system which results in accumulating these payments in the last weeks and days of the financial year, is capable of any good defence.

4. The Admiralty have furnished to your Committee the corresponding figures (which, however, have not yet been the subject of audit and report) for the year 1889–90; these will also be found in the table, which shows that in each of the three years ending in March 1888, 1889, and 1890 the payments in March for propelling machinery amounted to more than one-third of the total payments for the year. It will also be observed that whereas the payments in March 1888 amounted to £245,170 15*s*. 8*d*., those in April were only £7,939 8*s*. 3*d*., and that while those in March 1889 were £254,080 11*s*. 10*d*., those in April were only £2,079 15*s*.

The Committee again call attention to the practice of crowding such payments to contractors, for propelling machinery especially, into the last month of the year.

My Lords hope that due regard may be paid to the wishes of the Committee on this point, and that a determined effort may be made to distribute the payments more evenly in future.

*Advances to Contractors.—Special Cases defined.**

5. Closely connected with this subject is one which has repeatedly engaged the attention of the Public Accounts Committee in past years, namely, that of advances which are made to contractors, although not

* See also pp. 644, 671 and 674.

strictly claimable by them under the terms of their contracts. This subject embraces contracts for other purposes, such as gun-mountings, guns, projectiles, &c., besides those to which the payments mentioned in the last paragraphs relate.

In their Report of last year [see p. 230], the Public Accounts Committee stated their concurrence with the views previously expressed by the Committee in 1883, and by the Treasury in 1888, confining the exercise of the power to make advances to contractors, as far as possible, to "special cases," and defining the conditions which constitute such "special cases"; and they reported as follows: "Subject to the "exception already made for special cases, your Committee strongly "disapprove of advances not claimable under contract. They are "irregular in themselves, and are only made to avoid the surrender of "a surplus to the Exchequer." In the Treasury Letter of 25 September 1889, on that Report, the fact that the exception for "special cases" governed the latter of these sentences, as well as the former, was not understood, and the Treasury used words which led the Comptroller and Auditor General to apprehend that the Treasury were not disposed to adhere to the definition of "special cases" which had been laid down by the Treasury Minute of 23 January 1888, and acquiesced in by the Public Accounts Committee of that year. It appears, however, from the evidence which has been given on behalf of the Treasury, that they adhere to the position which they took up in 1888, and consider that the definition adopted in that year is a good working rule for the Admiralty. Mr. Forwood, the Financial Secretary of the Admiralty, whom your Committee examined at considerable length upon the subject of advances to contractors, accepted this definition.

6. For the future, therefore, it is understood that the exercise of the power of making advances to contractors, which are not claimable under the specific conditions of their contracts, is, as far as possible, to be confined to what have come to be technically known as "special cases."

These so-called "special cases" may be defined as cases which fulfil the following conditions:—

(*a*) Although the instalment is not due, the advance has been really earned.

(*b*) The work done, for which the contractor cannot claim payment at so early a date, is work which has not been provided for in the Estimates of the following year, but formed part of the authorized programme of the current year, and has in that year been provided for by a grant from Parliament.

(*c*) The work done and the materials used are capable of identification on the premises of the contractor, as having virtually become the property of the Crown.

7. The Public Accounts Committee in 1888 reported that interest should be charged for the period intervening between the date at which the advance is made and that at which it became legally due. Your Committee hold that this is a good and necessary rule in all cases where a payment is made to a contractor under a contract in which there is no provision for instalments, and where, in the natural course of events, he would not have expected to receive the payment until a date several months later; but it is inapplicable, and was never intended to apply, to certain cases, such as were explained in the evidence, in which the time when the conditions for payment could be fulfilled by the contractor is postponed, not in consequence of any shortcoming on his part, but for the convenience of the Admiralty.

8. In his Report, the Comptroller and Auditor General raised the question whether the time has not arrived when steps could be taken which would render advances to contractors not claimable under their contracts almost wholly unnecessary. He suggested that that end might be attained by the adoption of special forms of contract in those cases in which they are not at present used, with due provision for payment by frequent instalments for defined portions of completed work; and he pointed out that, in the case of contracts for ships and their machinery, the adoption of improved forms of contract, with such a provision for payment by instalments for defined portions of completed work, had caused advances to contractors wholly to disappear in the year 1886–87.

According to a statement laid before your Committee, on behalf of the Admiralty, the large payments for propelling machinery, &c., in the month of March 1889, amounting to £254,080 11*s*. 10*d*. were almost entirely in the nature of payments of instalments due on the completion of specific stages of construction which were certified to have been attained prior to the payment.

Your Committee have taken evidence upon these suggestions of the Comptroller and Auditor General. The Financial Secretary of the Admiralty states that in the case of gun-mountings and yard machinery, &c., it is impossible to lay down in the contract what portion of the work shall be completed before an instalment is due. His view is that advances, falling within the definition of "special cases," will be necessary during the execution of contracts for these purposes. These advances would in no instance exceed 80 per cent. of the total value of the work done, 20 per cent. being always held back by the Admiralty.

But your Committee are not satisfied that in these cases, and in the case of guns, there is any insuperable obstacle to the adoption of forms of contract providing for payment by instalments for defined portions of completed work.*

They recommend that this subject should be very carefully considered by the Admiralty and by the Treasury, with the object of extending, as far as possible, the system of providing in the contracts for payments by instalments, as in the cases of the hulls of ships and machinery for propelling. It was explained to your Committee that, in some instances, advances upon instalments are necessary, especially where the delay in the fulfilment of the conditions of payment is not the fault of the contractor, but is the act of the Department, as, for example, when the Admiralty are under the necessity of postponing the final inspection of the work done. But such advances would come under the definition of "special cases." On advances of this character, and on instalments due under the terms of the contract, interest would naturally not be charged to the contractor.

9. The Comptroller and Auditor General reported on two advances of £13,000 and £10,000 respectively to a firm of contractors. In both cases there was no contract at the time of the advance. In the first case, the ingots, on which the advance was made, were diverted from their original purpose, and used in the execution of other customers' orders. The Admiralty were not informed of this proceeding; but the War Office and the authorities at Woolwich received some notice. In the other case, though materials were provided, the manufacture of the guns ordered was afterwards abandoned. These advances were clearly such as your Committee disapproved. The Admiralty offered explanations which will be found in the evidence.

The remarks made by the Committee on this important subject are the result of very careful deliberation. There is, my Lords believe, no practical difference of opinion between the Committee, the Admiralty,

* See further at p. 277.

and the Treasury, as to the conditions which ought to govern discretionary advances, if they are made; and as these conditions are clearly stated in the Report, my Lords do not think it necessary to refer further to them. But the Committee doubt the necessity or expedience of making such advances at all, and recommend that the Treasury and Admiralty should consider whether they may not be avoided, in great measure, if not wholly, by adopting forms of contract which will provide for payment by frequent instalments for defined portions of completed work. My Lords will readily join in the suggested inquiry in which it is, perhaps, advisable that the War Department should be invited to take part; and they hope that before the end of the year some definite steps may have been taken towards accomplishing the end desired by the Committee.

*Their Lordships would also call the special attention of the Board of Admiralty to the injunction of the Committee that interest should be charged on all advances not provided for by contract, and which the contractor cannot have expected to receive.**

FIFTH REPORT, 1890. H.C. 319.

Treasury Minutes, 10 and 14 January 1891.

ORDNANCE FACTORIES VOTE; APPROPRIATION ACCOUNT.

Issues of Army Funds to the Ordnance Factories in anticipation of the Vote.

2. The Comptroller and Auditor General drew attention to the fact that the expenditure upon the Ordnance Factories had been met by issues from Army Balances, in anticipation of a Parliamentary Vote for the expenses of these establishments.

The War Office admits that expenditure outside the repayment services should, in future years, be deferred "until it has been provided for by express Vote, or by a special Vote on Account."

3. It is held by the Treasury that all customers of the Ordnance Factories, namely, the War Office, the Admiralty, the Indian Government and the Colonies, "must be prepared to advance money to the factories on account of their orders;" the Treasury "think it legitimate to regard the Ordnance Factories as the agents" of the Departments, &c., and are of opinion that the application of money from the Army or Navy Votes, "to the purpose of a separate service like that of the "Ordnance Factories, before a Vote in respect of that service for the "year has been taken, is, at least, an undue extension of the present "system, whereby the passing of one Army or Navy Vote is held to "justify expenditure under others." The Treasury have therefore, suggested that, "in future years, a Vote on Account, or the whole "Vote, for Ordnance Factories, should be taken at or before the "beginning of each year."

The Comptroller and Auditor General takes the same view; and your Committee recommend that Parliamentary sanction should be obtained for the estimate, by taking the Ordnance Factories Vote at the commencement of the year, at the same time that the Army Vote for Numbers and Vote 1 are taken. As soon as Parliamentary sanction has thus been obtained, money voted under Army Vote 1 may be advanced by the War Office, to meet expenditure of the Ordnance Factories on account of the Army.

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* See also further discussion in 1922, 1923, and 1924, at pages 644, 671, and 674.

T.M. 10 *January* 1891. *The Committee recommend that the Ordnance Factories Vote should be taken at the beginning of the year, at the same time as the Army Numbers and Pay Votes. My Lords hope that this desirable arrangement may prove feasible.*

Credit for Sale of Stores.

5. The question of the correct mode of charging stores, which, not being needed, are transferred from the factories to the Commissary General of Ordnance for sale, is one of the subjects under the consideration of a Departmental Committee. Your Committee therefore only remark that it is irregular to credit the Ordnance Factories Vote with any amount beyond that actually realized by sale.

The Committee are no doubt correct in saying that no more than the sum actually realized by sale should be credited to the Vote. . . .

Errors in Statement of Appropriations in Aid.

6. The Comptroller and Auditor General drew attention in his Report to the fact that sums amounting to £79,684 0*s.* 7*d.* had not been received during the period of the account, although included among the Appropriations in Aid, and that a portion of the amount was still outstanding at the date of his Report. He also pointed out that a further sum of £1,100 4*s.* 9*d.*, which had been actually received, had been excluded from the account upon apparently insufficient grounds.

Upon the principle laid down by the Treasury, that the date of receipt should govern the date of credit, the sum of £79,684 0*s.* 7*d.* should not have been credited, as if received, to Appropriations in Aid. It is also admitted that the amount omitted, £1,100 4*s.* 9*d.*, should have been included in the Appropriation Account.

If these amounts were deducted and added respectively, the account, instead of exhibiting a surplus of £18,036 14*s.* 9*d.*, would show a net deficit of £60,547 1*s.* 1*d.*

In the case of an ordinary Vote, your Committee would probably have reported that a Vote should be taken for this deficiency. But in this case the money thus voted would simply be surrendered to the Exchequer. Your Committee therefore adopt the suggestion made on behalf of the Treasury that the amount in question should be charged against the Accounting Officer until it is realized. The recurrence of a similar irregularity would be rendered impossible by the adoption of the system recommended by the Treasury, under which full advances would be made, in the form probably of a deposit account, by each Department and Government employing the Ordnance Factories.

My Lords agree that, when the errors alluded to by the Committee are corrected, the account shows a net deficit of £60,547 1*s.* 1*d. instead of a surplus of* £18,036 14*s.* 9*d.*

This deficit represents outlay by the Factories in 1888–89 *which had not been recovered from customers at the date of closing the account. It should remain as a charge against the Accounting Officer until recovered, and no excess Vote need be taken for it. If, as my Lords desire, all customers are required to make adequate advances on account of their orders, no such deficit ought to recur.*

ANNUAL ACCOUNTS OF THE ORDNANCE FACTORIES.

Form of Accounts.

7. For the first time, the Comptroller and Auditor General has reported to Parliament on these accounts, in pursuance of the Army and Navy Audit Act, 1889, which directs that accounts shall be prepared

and rendered to him in each year for audit, on behalf of the House of Commons, and for report, and that the accounts are to " show the cost " of labour employed, and the value of stores expended in the several " Ordnance Factories and Manufacturing Establishments of the Army."

The form of these accounts is to be such "as the Treasury from time " to time direct or approve." Apparently through an omission, this approval has not been obtained.

My Lords would observe that various amendments are under consideration, and that only experience can prove what is the best form to adopt. Meanwhile they approve of the present use of the form as it stands.

Comparison of Cost Results.

11. The Comptroller and Auditor General pointed out in his Report that the cost results set out in the " Production Statement " are the point to which his audit is ultimately directed, and that if these results are proved to be substantially correct, a standard is established by which Parliament might hope, by comparative test with outside prices, to judge of the economical working of the Army Manufacturing Establishments. At present he has not the means of establishing comparisons on behalf of Parliament.

It seems to be worthy of consideration how far such comparisons could be usefully instituted.

It seems to my Lords highly desirable to obtain the means of a fair comparison between the cost of producing articles in the Factories and that of purchasing them from the trade. With this view they suggest that interest on capital outlay should be a factor in the price of supplies.

In this connexion, my Lords would inquire what rules now govern the allocation of charges between capital and production.

ANNUAL ACCOUNTS OF THE ROYAL ARMY CLOTHING FACTORY.

Audit.

14. Under the Army and Navy Audit Act, 1889, these Accounts also have been submitted to the Comptroller and Auditor General.

The remarks made by my Lords on the form of the Ordnance Factory Accounts apply equally to that of the Clothing Factory Accounts.

They approve of the use of the present form pending the consideration of amendments.

DOCKYARD EXPENSE AND MANUFACTURING ACCOUNTS.

Basis of Audit.

15. Although the results of a test examination of these Accounts by the Comptroller and Auditor General were laid before Parliament and submitted to the Public Accounts Committee in 1888 and 1889, this is the first occasion on which he has reported on these Accounts under statutory powers, in consequence of the Act passed in the last Session. That Act directs that " Accounts, showing the distribution and cost of " labour employed, and the value of stores expended in the several " Government Dockyards and Manufacturing Establishments of the " Navy, in and out of the United Kingdom," shall be prepared and rendered to the Comptroller and Auditor General annually, and shall be examined by him on behalf of the House of Commons, " with " reference to the Programme of Shipbuilding and other work for which

" money has been provided, either by special Act, or out of money " appropriated for Navy Services by an Appropriation Act," and that he shall report on these Accounts.

Distribution Statements and Programme of Ship-building.

16. These Statements and a Programme having been introduced into the Navy Estimates for the year 1888–89, in the hope that Parliamentary control could in future be exercised over the use as well as upon the purchase of materials, and over the particular services upon which labour is employed, it has now become possible to compare the corresponding actual expenditure of the year, in connection with shipbuilding, repairing, and the like, with these Statements.

Issues of Stores to Captain of Steam Reserve.

19. When Stores have been issued from the Storekeeper's charge to the Captain of the Steam Reserve, in order to be laid apart for future use, it is desirable, as the Comptroller and Auditor General suggested in his Report, to keep touch with those stores. The Admiralty propose to do this by means of Store Accounts; and a scheme is being prepared with that object. They propose, further, to secure a proper verification by annual survey of both the quality and quantity of stores thus laid apart. Your Committee look to the Comptroller and Auditor General to report, after experience of its working, as to the adequacy of this scheme.

My Lords hope that a scheme of accounts for these stores has now been prepared.

Omission of the Values of Lands, Buildings, and Machinery from the Accounts.

24. The Report of the Comptroller and Auditor General called attention to the fact that the values of Lands, Buildings, and Machinery have been omitted from the Accounts for 1888–89. He had ascertained that the Admiralty did not think it worth while to go to great expense in obtaining a professional valuation. Moreover, the Admiralty appear to hold that a revised departmental valuation would be unreliable. The Comptroller and Auditor General is of opinion that as the Admiralty have skilled officers attached to the Works Department at most of the Dockyards, their services might be employed in order to obtain an approximate valuation, similar to that which in the Ordnance Factory Accounts serves as a basis for the distribution of depreciation charges among the results of manufacture.

Your Committee deem the point thus raised to be one deserving careful consideration.

My Lords are disposed to doubt whether Officers of the Admiralty could make a valuation that would be sufficiently trustworthy to repay the trouble and cost of making it.

VICTUALLING YARD MANUFACTURING ACCOUNTS.

26. The Victualling Yard Manufacturing Accounts were discontinued for some years, but have been re-instituted in 1888–89, in accordance with the opinion of the Public Accounts Committee, 1889, that " some " Accounts of this nature should be rendered in future, but not neces- " sarily in so elaborate a form as those of the Shipbuilding Dock- " yards."*

* P.A.C. 4. 1889. 80, H.C. 259.

The Admiralty have limited these Accounts to purely manufacturing operations, which cover an extent of about £79,000 out of a total of about £1,200,000 included in Vote 2 for the Navy. The Comptroller and Auditor General has raised the question whether the ground thus covered is sufficient. But as the Admiralty point to the expense of rendering fuller accounts, your Committee suggest that the subject should be considered by the Treasury before it comes before the Public Accounts Committee next year.

My Lords request that they may be informed of the views of the Board of Admiralty on the suggestion that these accounts should not be confined to expenditure on the conversion of raw materials into manufactures, but be extended to the application of the whole expenditure out of the Victualling Vote:—that, in short, they should be Expense *as well as* Manufacturing *Accounts.*

*My Lords will not press for any extension that would cause serious additional cost, but they would ask whether a "summarized balance sheet," covering the whole expenditure, such as the Comptroller and Auditor General refers to in paragraph 5 of his Report on these accounts, could not be prepared without this result.**

Civil Services Appropriation Accounts.

Class I., Vote 9.—Revenue Department Buildings.

Indelibility.

34. The Comptroller and Auditor General pointed out, in his Report, that an attempt accurately to adjust expenditure between Post Office Buildings and Telegraph Buildings, for statistical purposes, had led the Office of Works into a breach of the statutory requirement that the Account "shall exhibit sums which may have actually come in course of payment" within the financial year.

The inclusion in the Account of amounts paid in any anterior period is obviously illegal. A note appended to the Account would sufficiently explain any adjustment that should be made for statistical purposes . . .

T.M. 14 January 1891. *My Lords infer from Mr. Primrose's evidence that a technical breach of Section 24 of the Exchequer and Audit Act is admitted by the Accounting Officer. This error arose from the application of a system of adjustment between Post Office and Telegraph building accounts, unobjectionable as a general rule, to a case where the actual figures did not admit of such adjustment, i.e., where the amount chargeable to either of the two heads in the final year of expenditure on a work happened to be less than that which should have been transferred from that head to the other, in order to represent correctly the appropriation of the building to the two services. . . . In such cases a note should be appended to the Appropriation Account stating the adjustment which would have been made between the two services, had the amount of expenditure in the year admitted of such adjustment. The totals of the subheads should be corrected accordingly in the Comptroller and Auditor General's statements of gross and net cost of services and in other statistical records.*

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* See 8. 1891. 59, at p. 285.

SECOND REPORT, 1891. H.C. 227.

Treasury Minutes, 3 January 1892 and 15 July 1891.

CIVIL SERVICES APPROPRIATION ACCOUNTS.

CLASS I., VOTE 3.—ROYAL PARKS AND PLEASURE GARDENS.

Postponed Payments.

1. A note is appended to this Account stating that, owing to certain expenditure, including about £1,800 in connexion with the opening of Constitution Hill to the public, for which service no provision was made in the Vote, it was necessary to postpone the payment of bills to the amount of about £3,000. This note appears in consequence of a recommendation of the Public Accounts Committee in 1886, that, "every "payment postponed for want of funds should be shown upon the face "of the Appropriation Accounts, so that the fact of liability having "been incurred in excess of grant should be brought prominently before "the notice of Parliament."* A Treasury Circular of the same year accordingly directed the various Departments to make a note upon the Appropriation Accounts, stating the fact of any such postponement, and its amount.†

2. Looking to the total expenditure under this Vote, viz., £90,293 5*s*. 3*d*., this is an exceptionally large postponement. Your Committee have availed themselves of the opportunity which thus arose to consider the question whether postponements of this nature should be permitted.

Sir Reginald Welby attended on behalf of the Treasury, and in his evidence will be found a history of the opinions of the Public Accounts Committee on this question in the years 1877, 1885, and 1886, and of the views of the Treasury in those years. The opinion held by the Public Accounts Committee in 1877, concurred in by the Committee in 1885, was "that expenditure not provided for should not, unless "under exceptional circumstances, be incurred; but if it must be "incurred, it should be charged in the Vote, and shown, even if it "occasions an excess."‡

On the other hand, in 1885, and again in 1886, the Treasury did not strongly condemn this practice of postponing payments for the purpose of avoiding an excess. Sir Reginald Welby accounted, in great measure, for that fact by the difficulty which the Treasury in past years experienced in impressing upon the Departments the grave irregularity of incurring excesses. But he was able to point to the small number and amount of the excesses now occurring, year by year, as a proof that the Departments have learnt the lesson. In the year 1887 the Public Accounts Committee reported with much satisfaction that there were no deficits to be voted, and that in the opinion of the Comptroller and Auditor General this fact was the more significant, because there was nothing in the accounts to lead to the inference that excesses had been avoided by postponing payments of fully-matured liabilities.

The excesses reported in the succeeding years have been as follows:—

1888, two, total amount £3,309 7*s*. 4*d*.
1889, three, total amount £10,970 14*s*. 2*d*.
1890, two, total amount £8,052 6*s*. 3*d*.
1891, three, total amount £5,885 10*s*. 11*d*.

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* P.A.C. 2. 1886. 27, H.C. 169.
† *See* T.M. 27 December 1886 appended to P.A.C. 1887, H.C. 201, p. 200.
‡ P.A.C. 1877. 91, H.C. 217, and 2. 1885. 8, H.C. 267.

8. The reasons underlying the objection which the Treasury formerly entertained to the adoption of a stringent rule against postponements have thus, to a large extent, passed away, although the Treasury are properly desirous that, if postponement of payments be checked by such a rule, the danger of tempting the Departments to spend more money than Parliament has voted to them, and thus to incur excesses, may not be forgotten.

4. Your Committee desire, upon this point, to repeat and emphasize the doctrine laid down by the Public Accounts Committee in 1877. "The irregularity, they consider, consists in incurring expenditure "which has not been authorized by Parliament, and would be increased "rather than diminished by not defraying it when it has been actually incurred." This doctrine, that the fault lies in incurring liabilities in excess of the Estimates voted, has throughout had the concurrence of the Comptroller and Auditor General.

5. Your Committee do not apprehend that, if each Department is sufficiently careful in framing its Estimates, and in ascertaining at the proper time whether a necessity exists for a Supplementary Estimate, liabilities will be incurred (unless in rare and exceptional cases) beyond the provision voted by Parliament.

6. Moreover, the danger that excesses will be incurred is reduced to very small proportions by the circumstances to which the Comptroller and Auditor General's evidence calls attention, viz., that no Excess Vote can be taken without having been previously submitted to the Public Accounts Committee, who inquire carefully into the grounds of excess, and into the reasons why the expenditure has not been met by a Supplementary Vote. They do not deal leniently with excesses, and would censure a Department in a case where proof was given that a Supplementary Vote ought to have been obtained.

7. The fact that an excess cannot be hidden, but is always brought under public review in this manner, whereas a postponement of payments, if the Department omits to append a note to the account, may be concealed from the Audit Office and from Parliament, affords a powerful argument in favour of the recommendation which your Committee desire to make, viz., that positive regulations should be issued by the Treasury directing that, for the future, payments which come within the provision made by Parliament, and which are due and fully matured, must not be postponed, even for the purpose of avoiding an excess.

8. When the officers of a Department apprehend that the provision that has been voted will be insufficient, their first effort should be to exercise economy by postponing any works or services which can be thus dealt with without injury to public interests; if that expedient should prove insufficient or impracticable, resort should be had to a Supplementary Estimate; and in the rare cases which must sometimes arise, when the discovery that the Grant will be exceeded is not made in time to obtain a Supplementary Grant, the proper course, in the opinion of your Committee, will be to make all payments that are due and fully matured and that fall within the general provision of the Estimate, rather than avoid an excess by the postponement of such payments.

9. Your Committee regard as fallacious any argument for such postponements that is based on the tendency which they may have to cause economy in the Department's administration during the succeeding year. The only sound doctrine is that every desirable and practicable economy will be practiced without the pressure produced upon a Department by the necessity of meeting liabilities postponed

from a previous year. Moreover, if liabilities are postponed in one year, that practice may be repeated in the next, and thus not only would the evil grow, but the public service would suffer from the knowledge of contractors and tradesmen that payment of their accounts was liable to arbitrary postponement at the will of the Department.

T.M. 3 January 1892. *My Lords are prepared, in deference to the Committee, to accept generally their view "that for the future, "payments which come within the provision made by Parliament, and "which are due and fully matured, must not be postponed, even for "the purpose of avoiding an excess." They direct, therefore, that the following Circular* be addressed to the Accounting Officers of the Votes for the various Civil Services and Revenue Departments, and to the War Office and Admiralty.*

Sir,

I am directed by the Lords Commissioners of Her Majesty's Treasury to recall your attention to their Circular of 27 December 1886, *issued in connexion with the Accounts for* 1884–85.

Regarding expenditure by a Department in excess of its spending power as the height of irregularity, my Lords have, as you are aware, been inclined to view postponement of liabilities as a lesser evil, provided that such postponement be made known to the Comptroller and Auditor General and Committee of Public Accounts by means of a note to the Appropriation Accounts. Last Session, however, some instances of the postponement of payments for the purpose of confining the expenditure within the grant were brought to the notice of the Public Accounts Committee; and after a full reconsideration of the whole subject they recommended that, for the future, payments which come within the provisions made by Parliament, and which are due and fully matured, should not be postponed, even for the purpose of avoiding an excess upon a grant.

Having regard to this recommendation of the Committee, my Lords are prepared to modify the views which they have previously expressed on the subject; and I am directed to request that you will in future act upon the rule which, in the opinion of the Committee, should be observed in all cases, in lieu of that laid down by the Circular of 27 *December* 1886. *It should, however, be remembered that a payment is not, for the purposes of this rule, "due and fully matured" until all the steps (such as inspection, examination, &c.) have been taken which in the regular course of business are antecedent to payment; and that such period of time should always be allowed for those steps as the ordinary practice or special exigencies of the Department may require. My Lords make this observation with a view to avoiding misunderstandings which might lead to undue haste in the examination of claims.*

The new rule will not apply to cases in which, with Treasury sanction, it may have been agreed with the recipient that a payment shall be made in two instalments, falling in different financial years; but in such cases a note of the outstanding liability should be appended to the Appropriation Account.†

10. In the particular case which has brought up these questions of general principle, it is clear that the Office of Works should have applied to Parliament for a Supplementary Estimate. The risk of incurring an excess would not have been run, but for the belief that, in the last resort, the expedient of postponing the payment of bills was

* Issued as T.L. 16064/91 dated 29 January 1892.

† This rule of notation applies to matured payments postponed, not to instalments payable on conditions not fulfilled at the close of the year, see P.A.C. 1912, Q. 3427-42.

available, and would not be disapproved by the Treasury. By enforcing the rule which your Committee have recommended, the Treasury will, they trust, effectually check the recurrence of such proceedings; they are irregular in principle, and, as has been shown, they may have evil practical results.

The Committee express the opinion, in which my Lords concur, that your Department should have applied to Parliament for a Supplementary Estimate.

CLASS II., VOTE 2.—HOUSE OF COMMONS OFFICES.

Extra Receipts: Audit by Speaker.

14. The Comptroller and Auditor General having called attention to the fact that the Extra Receipts* of the House of Commons are not examined by his Department in the same way as other Extra Receipts, including those of the House of Lords, the Accounting Officer attended, by Mr. Speaker's desire. In his evidence, and in a Minute by Sir Denis le Marchant, the system of audit by the Speaker, under the Act 12 & 13 Vict. c. 72, s. 6, is described.

VOTE 25.—OFFICE OF WOODS, FORESTS, AND LAND REVENUES, &C.

Division of Charge between two or more Votes.

15. Certain expenditure on a lawsuit, in which this Department acted virtually as agents for the War Office, is accounted for partly in this Vote, and partly in the Law Charges Vote (Class III., Vote 1). Your Committee are of the same opinion as the Comptroller and Auditor General, namely, that in such cases the whole sum should be charged against one Vote, and that it is irregular to divide the charge.

My Lords observe that the Committee agree with the Comptroller and Auditor General that the whole of the legal expenses of defendants payable by the Crown in respect of its unsuccessful claim to foreshore near Shoeburyness should have been charged to one Vote; and it may be inferred from Sir Charles Ryan's answer to Question 140 *that, upon the further explanations given on behalf of the Treasury, he would hold that the charge should have been against the Law Charges Vote, from which the legal expenses of the War Office (as the employing Department in the case) are defrayed, rather than against the agent Department, the Office of Woods. The Committee, however, going beyond this particular case, say in general terms "* that in such cases *the whole sum "should be charged against one Vote, and that it is irregular to divide "the charge."*

My Lords are prepared to admit that in this particular case the interest of the War Office was so large, as compared with that of either the Office of Woods or the Board of Trade, as to make it hardly necessary to complicate accounts by making a special charge against either of the latter in respect of the Defendant's costs; and they have accordingly arranged that a further claim for costs recently brought forward should be defrayed from the Vote for Law Charges. But my Lords are not able, without some qualification, to agree in the absolute statement that such a division of charge is irregular, because the Estimates annually submitted to Parliament do, in fact, in some cases, provide for division

* Appropriated in aid of the Vote from 1896-7, *see* Treasury Minute, 1 January 1896, H.C. 46, 1896.

of charge between two or more Votes, such Votes being in some instances administered, and accounted for, by different Departments, e.g.,—

(1) *Maintenance of Public Buildings used for County Courts and for Revenue purposes, divided between the Vote for Miscellaneous Legal Buildings and that for Revenue Department Buildings.*

(2) *Cost of Sites divided between the Post Office and Telegraph Votes.*

(3) *Cost of Works and Buildings divided between Army and Navy Votes, even when carried out exclusively by the War Office.*

(4) *Cost of Colonial Works carried out by the War Office, such as Malta Drainage and Gibraltar Waterworks, divided between Army and Navy Votes, in addition to a Colonial Contribution.*

These instances are sufficient to show that there are many circumstances which may make it convenient, for statistical purposes, to apportion charges between separate Votes in a more or less arbitrary manner. My Lords would not be disposed to push this practice to an extreme, nor to apply it to insignificant amounts, or in trivial cases; but they venture to think that such division of charge may in certain cases be not only not irregular but even highly desirable. In such cases, moreover, the objections to a division of charge may, to a large extent, be met by cross-references either on the Estimates or on the Appropriation Accounts; and they admit that in the case which has given rise to this discussion a cross-reference might with advantage have been inserted in the Appropriation Accounts.

Class III., Vote 3.—Supreme Court of Judicature.

Copying Work farmed out.

22. . . . The Comptroller and Auditor General calls attention to the fact that in the Chancery Registrar's Office " the copyists are not employed and paid by the Department, but the work is practically farmed out " to an officer of the Supreme Court, through whose hands between £2,000 and £3,000 pass every year, while the accounts do not show what portion of this amount is paid to the copyists. Such a system has been on several occasions disapproved by the Treasury. Your Committee trust that it may be discontinued as soon as possible. [*The abolition of this system in* 1891 *was referred to with satisfaction in P.A.C.* 4. 1892. 6.]

Class IV., Vote 9.—Public Education, Scotland.

Definition of Public Elementary Schools.

26. Your Committee have fully inquired into the question raised by the Comptroller and Auditor General, as to the grants made to certain schools, where the proportion of scholars, admitted by the managers to be paying an ordinary fee of more than 9*d.*, exceeded 20 per cent. He has reported that he cannot admit these grants as proper charges against the Vote, nor the grant to another school, where the percentage was said to be 18·77 in 1889–90, rising in 1890–91 to 43·2, and where special circumstances were noticed by him in his Report.

The Comptroller and Auditor General took action in consequence of two opinions of the law officers. The Attorney General and the two Scotch law officers (the English Solicitor General taking a different view) signed these opinions, and their purport was communicated to your Committee, who have not attempted to interpret the law for themselves, but, in the views which they now report, upon the points at

issue between the Department and the Comptroller and Auditor General, have been guided solely by the interpretation thus given by the law officers.

27. In 1887 the three law officers answered in the affirmative the question put to them "whether the ninepenny rule applies to Scotland." This rule is laid down by Section 3 of the Elementary Education Act of 1870, which enacts that "the term 'elementary "school' does not include any school or department of a school at "which the ordinary payments in respect of the instruction, from each "scholar, exceed ninepence a week."

The law officers state that "it cannot be disputed that Section 20 "of the Elementary Education Act of 1876 applies to Scotland by "virtue of Section 53. The question is, therefore, what does Section "20 mean? In Section 20 occur the words 'public elementary "schools.' We think that this expression constitutes a 'term,' in the "sense of the second paragraph of Section 48. Accordingly, the "expression 'public elementary school' is to have the same meaning "as in the Act of 1870. Now the 7th Section of the Act of 1870 "declares what are 'public elementary schools.' A perusal of that "section will show that it is concerned with the definition of this "attribute 'public'; and it is enough to say that nothing in that "section bears very directly on the present question. The section "accordingly throws the reader back upon the definition of 'elemen-"tary school,' which is given in Section 3 (of the Act of 1870). In "our view this latter section is decisive of the present question. It is "here that the ninepenny rule is laid down, and accordingly the 'nine-"penny rule' is made by reference a condition of the grants to Scotch "schools."

Your Committee were informed on behalf of the Scotch Education Department, that they have adopted the view thus taken by the three law officers.

In another part of the same "opinion" the law officers negative any suggestion that the language applying the ninepenny rule to English grants "bears a different meaning when applied to Scotland. . . . "In Section 53 (of the Act of 1876), there is no qualification or "modification of Section 20 and the other relative sections, in their "application to Scotland; no suggestion that they are to be read in one "way for Scotland, and another for England. They are applied as "they stand, that is to say, with their statutory meaning."

28. A further opinion was obtained from the same three law officers in May 1890, as to the proper interpretation to be attached to Section 8 of the Act of 1870, and was to the effect that the Act cannot be construed "so as to exclude a school in which any one child pays more "than 9*d*. To adopt such an interpretation would make the words "'each scholar' equivalent to 'any scholar'; which would not," in the opinion of the law officers, "be warranted by ordinary principles of construction." The purport of the opinion of the law officers is that, "although the average amount paid by each scholar affords a guide for "determining whether a school does or does not fall within the "concluding words of Section 8 of the Act of 1870," they "think it is "not conclusive. The question is really one of fact in each instance, "and it is difficult to lay down any rule which can be applied in all "cases"; but they "think that, if in any school a substantial propor-"tion of the scholars, or at any rate a large number of scholars, pay "not more than 9*d*., the school is within the definition of an elementary "school."

29. The Comptroller and Auditor General has reported his opinion that it follows from this authoritative interpretation of the law "that "the proper course, in every case, is to consider the proportion borne "by the number of scholars ordinarily paying more than 9*d.* a week to "the total number of scholars on the books, regard being given to "attendant circumstances."

30. And on the question to what that proportion may normally amount, he came "to the conclusion to submit that all schools must be "considered ineligible in which the proportion of scholars paying more "than 9*d.* amounts to 20 per cent. and upwards; and that cases of "schools where the proportion is between 10 and 20 per cent. should be "specially considered." It was upon this basis that he declined to pass as legal payments the grants to 18 schools, amounting to a total of £12,246 19*s.* 6*d.* He added that, in regard to other cases, it was only with some hesitation that he had given his certificate.

31. Mr. Craik, on behalf of the Scotch Education Department, objected, in his evidence, to the adoption of any such proportion or percentage as a rule, and justified the view of the Department, that the average fee should be the first consideration in considering the eligibility of a school, the question how many scholars pay 9*d.* or less being taken into consideration when the average seems to the Department, from any special circumstances, to be too favourable or too unfavourable to the school.

32. Your Committee do not consider that the average which Mr. Craik would regard as entitling a school to a grant, viz., an average fee of 9*d.*, paid for subjects within the Education Code, would be consistent either with the plain wording of the Act, or with the interpretation put on it by the law officers.

Your Committee, adopting that interpretation, recognize that, although the average fee affords a guide for determining whether a school falls within Section 3 of the Act of 1870, it is not conclusive.

For example, the average fee in a school may be above 6*d.* The discovery that the average is so high should, in your Committee's opinion, raise a doubt whether a large number of the scholars pay no more than the usual elementary school fees, ranging from 9*d.* to 1*d.*, and therefore whether the school is eligible for grants. But the fact would clearly not be conclusive against the school, as further inquiry might show that all the children pay 6*d.*, or that no child pays more than 9*d.*, or that an overwhelming proportion pay no more than 9*d.* Again, the average might actually be above 9*d.*, and yet only one or two scholars might pay more than 9*d.*, the rest paying exactly 9*d.* In each of these alternatives the school would be eligible for a grant. On the other hand, the average fee might be under 6*d.*, and yet the school might be ineligible; as, for instance, in a case where more than half the scholars pay more than 9*d.*, and the rest pay no fee.

33. Hence the second point in the law officers' opinion assumes far greater importance than the inconclusive guidance afforded by the average fee. They state that "the question is really one of fact in each instance." They recognize that "it is difficult to lay down a rule which can be applied in all cases." But they proceed to attempt this, in the following words: "They think that, if in any school a sub-"stantial proportion of the scholars, or at any rate a large number of "scholars, pay not more than 9*d.*, the school is within the definition of "an elementary school."

Your Committee, therefore, have no doubt that the Comptroller and Auditor General is correct in the inference quoted above (para. 29); for, if the proportion who pay more than 9*d.* is ascertained, it at once

becomes clear whether a "substantial proportion"—"a large number"—pay more than 9*d.*

34. It is also right that regard should be given, as he states, "to attendant circumstances."

Some of these "attendant circumstances," in the case of the schools whose grants have been disallowed, call for notice. The Comptroller and Auditor General has reported that circumstances have been brought to his notice which do not permit him "to feel satisfied that the official "returns of 'fees payable' made by all school managers are either "accurate or complete."

School fees in Scotland are commonly paid quarterly in advance. But the official question answered by managers is "what are the rates of fees per week?" The managers make their own calculation of the weekly equivalent of the quarterly payment, and enter the result only on the official form. When, therefore, the calculation thus made results in statements that in the Paisley Neilson Institution, out of a total of 1,060 scholars, 433 pay exactly 9*d.*, while 199 pay more, and that in another school, out of a total of 1,460, 381 pay exactly 9*d.*, while 409 pay more, it becomes important to inquire what were the precise quarterly payments, so that the calculation may be checked.

The return of the number of children as paying 9*d.*, when the managers themselves make the calculation, calls for the more scrutiny if there is a marked discrepancy between the returns of two years, as in the case of the first of the schools just mentioned, where, in 1889-90, 18·77 per cent. were returned as paying more than 9*d.*, and in the following year 43·2 per cent., in addition to 174 scholars who were alleged to have paid exactly 9*d.*

The Comptroller and Auditor General reported that errors of return have arisen, in many cases, from incorrect methods of taking into account the duration of the school year; an assumption, for example, that the school met during 48 weeks, whereas the real number was 42. The statement is challenged by the Glasgow School Board as regards more than one case. But the Scotch Education Department have not entered upon a minute inquiry into the question whether the practice exists.

Your Committee are not able to admit the cogency of the argument by which some defence of such a practice was attempted. The Act speaks of "ordinary payments in respect of the instruction from each scholar," which "exceed 9*d.* a week." There must be equal treatment between schools where a weekly fee is charged, and those where the payment is quarterly. No fee is charged at the former for a week when the school does not meet, or the child does not attend. Nor can a correct weekly equivalent for a quarterly fee be found except by dividing the latter by the number of weeks during which the school has met, and the scholars have actually attended.

35. Other errors arose from causes which the Comptroller and Auditor General considered more serious, and which he described in his report and evidence. It sems that some school managers have taken upon themselves the responsibility of making deductions from the payments they have received before answering the official question as to the rates of fees. Nor does any statement, either of gross fees or of deductions, appear on the official form. Thus, for audit purposes at least, there is nothing to show that any deductions have been made.

Some defence was offered by Mr. Craik for such a practice with regard to the income from school fees, on the ground that his Department has habitually told managers that certain heads of ex-

penditure should be deducted from the ordinary expenditure, on which a grant is claimed, and must not form a ground for swelling the grant.

But your Committee do not find in that explanation an adequate excuse for the practice, nor for the omission of the Scotch Education Department to require that, in all cases where the question whether public money shall or shall not be granted depends on the facts as to the school fees, those facts should be fully put before the Department in the first instance, and should be afterwards available for audit. To allow local managers of schools, however trustworthy, to decide for themselves what deductions they may make from gross receipts, without sending in any statement of such deductions or receipts, which may be checked by a local examination of their accounts, seems to your Committee to open the door to errors and abuses. The danger becomes very evident when it is remembered how serious the consequences may be to the finances of a school if adequate deductions are not made, and consequently the answer given by the managers as to "the rates of fees per week" is such that the grant is lost.

It was stated by Mr. Craik that some portion of the fees, in certain schools, may be regarded as payments absolutely outside the cognizance of his Department, being paid for subjects on which no grant is given. He also stated that, for subjects within the Code, both "ordinary payments" and extraordinary payments of school fees are within the cognizance of the Department. On these points your Committee refrain from fully expressing an opinion. But, in their judgment, it is desirable that the Department should exercise vigilance lest school managers, availing themselves of these refinements, should be allowed to make undue deductions from the actual payments made by parents, and thus to claim a grant on misleading returns as to the school fees. Your Committee observe that, when the right to make deductions is claimed, the Department are disposed to hold that the deductions must be in respect of subjects which are optional, and which are not taught within the ordinary school hours. Your Committtee are of opinion that, in dealing with this matter, these two safeguards at least should be kept in view.

36. In one case, that of the Lenzie Academy, Mr. Craik admitted, in respect of the Comptroller and Auditor General's objections, that "a very serious difficulty has been raised, and so serious a difficulty "that no grant has actually been paid," during the financial year 1890–91.

This fact illustrates the importance and value of the Comptroller and Auditor General's discharge of his duty in raising objection when schools which appear not to come within the statutory definition are on the list of those receiving annual grants.

But, in the preceding year, the accounts of which are now under review, 1889–90, a grant of £206 3*s*. 6*d*. was paid to this school, and has been reported by the Comptroller and Auditor General as one of those which he cannot admit as proper charges against the Vote. Half the scholars (118 out of 236) were returned by the managers as paying more than 9*d*. per week, and 26 as paying exactly 9*d*., while the school prospectus showed that much higher fees were charged than appeared in the official returns.

37. Under all these "attendant circumstances," your Committee have no doubt that the Comptroller and Auditor General has only performed his duty in reporting the grant to the Lenzie Academy for disallowance, and in extending that disallowance to the 16 other cases in which the managers' own calculations show that the proportion of scholars paying more than 9*d*. amounts to 20 per cent. and upwards,

as well as to the case of Paisley Neilson Institution, where the proportion is calculated at 18·77 per cent. for the year in question, but at 43·2 per cent. in the succeeding year, and where the number returned as paying exactly 9*d.* is 433 in the former year and 174 in the latter.

38. Seeing, however, that much hardship to the schools might arise from calling upon their managers to repay grants, which were claimed on a system that has apparently had the sanction of the Department, your Committee report that the disallowance, which they would otherwise have recommended, may be waived.

39. At the same time, it should be understood that that system cannot continue, that the Department should require full statements of the gross receipts and of all deductions claimed, and that these should be closely scrutinized. Finally, your Committee recommend that, so long as the law remains in its present form, a rule should be adopted that, after the actual weekly equivalent for the quarterly fee has thus been ascertained, no school shall be eligible for grants at least two-thirds of whose scholars do not pay fees of 9*d.* or less per week. And the attendant circumstances should be considered before a grant is made to schools where any children pay more than 9*d.*, or any considerable number are said to pay exactly 9*d.* It need hardly be added that the facts obtained by the Department, to guide them in applying this rule, should, in every case in which a grant is made, be available for the Comptroller and Auditor General when he examines the payments.

T.M. 15 *July* 1891.—*Paragraphs* 26–40 *refer to two legal points affecting the question of what may be called the "superior limit" of schools in Scotland entitled to grants from the Vote for Public Education, Scotland.*

The first question which arose was whether the English rule, whereby the term "elementary school" does not include any school or department of a school at which the ordinary payments in respect of the instruction, from each scholar, exceed 9*d. a week* (33 & 34 *Vict. c.* 75, *s.* 3), *extends to Scotland.*

The Law Officers advised that it did so extend, and this opinion has been accepted by all concerned.

The practical interpretation of this rule, in cases where some of the scholars pay more than 9*d., formed the subject of a further reference to the Law Officers in May* 1890.

The opinion received was to the effect that the words of the Statute, quoted above, could not be construed so as to exclude a school in which any one child paid more than 9*d.; but that, while the average amount paid per scholar forms a guide for determining whether a school does or does not fall within the definition of an elementary school, this is not a conclusive test; that the question is one of fact in each instance, but that a school in which a substantial proportion of the scholars, or at any rate a large number of scholars, pay not more than* 9*d., is an elementary school.*

From these opinions it follows that—

(*a*) *Where the average fee exceeds* 9*d., the school is excluded from the grant, as not being a "public elementary school."*

(*b*) *A school where a "substantial proportion of the scholars, or, at any rate, a large number of scholars, pay not more than* 9*d.," may be an elementary school, even though some scholars pay more than that amount.*

It is not now necessary to recite the divergent views held by the Comptroller and Auditor General and the Scotch Education Depart-

ment as to the exact way in which these propositions are to be interpreted and administered.

The Public Accounts Committee propose that the second proposition (b) should in practice take the form of a rule that no school should be eligible for grants unless at least two-thirds of the scholars in it pay fees not exceeding 9d. a week.

My Lords are glad to note the statement in Mr. Craik's letter of the 4th ultimo, that the Lords of the Committee of the Privy Council for Education in Scotland "are unwilling to raise difficulties which can "possibly be avoided; and are anxious to give assistance in devising "a practical scheme which may have the assent of the Treasury for "carrying out to the best of their power what they believe to be the "intentions of the Committee," and to learn that their Lordships of the Committee of Privy Council are prepared, though with some regret, to act upon the suggestion of the Public Accounts Committee quoted above.

In future, therefore, schools will be excluded from the grant where either—

(a) The average fee exceeds 9d. a week; or

(b) One-third or more of the scholars pay fees exceeding 9d. a week.

The fees in each case are the net fees arrived at after taking into account the permissible deductions referred to below.

My Lords pass to some secondary questions which have arisen in connexion with this subject, and which are alluded to by the Public Accounts Committee under the head of "attendant circumstances."

Differences of opinion have arisen in connexion with the fees as to—

(a) How a quarterly fee is to be converted into a weekly fee, in order to ascertain whether it exceeds, or does not exceed, the statutory figure of 9d. a week.

(b) What items should be included in the "ordinary fee" to which the 9d. limit applies.

As regards the conversion of quarterly fees into weekly fees, my Lords think that the suggestion of the Scotch Education Department, though slightly less strict than that suggested in paragraph 34 of the Report of the Committee, may properly be adopted, i.e., that the weekly fee may be arrived at by dividing the quarterly fee by the number of weeks during which the school is normally open, no notice being taken of accidental or abnormal cases of closing.

With regard to the latter point, the principal source of doubt appears to have been the insufficiency of evidence, on the face of the official papers, as to the items which were, or were not, included in the "ordinary fee." My Lords fully agree with the Committee (paragraph 36) that "the facts as to the school fees should be fully put before the Department in the first instance, and should be afterwards available for audit." Probably the work of both administration and audit would be simplified by the adoption of a suitable form of return, to be filled up by managers applying for grants, stating both the gross amount of fees, and any deduction which the managers think should be made from these fees with reference to the 9d. limit.

There appears to be no difference of opinion that such deductions should only be allowed where the subjects covered by the fee deducted are—

(1) Optional.

(2) Not taught within the "ordinary school hours," i.e., the two hours of secular instruction at each meeting.

(3) Not subjects for which a grant is sought.

Mr. Craik's letter of the 9th ultimo expresses the view of the Scotch Education Department that not only should the disallowance recommended by the Comptroller and Auditor General be waived as regards payments already made, as recommended by the Committee, but that a similar remission should be extended to payments which may fall due upon school years which have already begun. Upon this my Lords would observe that the Comptroller and Auditor General's Report containing his objections to the former practice was published in February last, from which date it may be held to have been the duty of the Education Department, pending consideration by the Public Accounts Committee, to see not only that no payment was made to which the Comptroller and Auditor General's objection might apply, but that no risk was incurred of claims being presented in future for such payments. The Report of the Committee dealing with this question was dated 6 May, and a copy was communicated officially to the Education Department by Treasury Letter of 29 May.

Having regard to these dates, my Lords consider that every school whose year began on or after 6 May 1891, *must be held to have been served with notice that a change of system might be expected; but they think that payments in respect of school years beginning before that date may properly be made on the old basis, subject always to satisfactory evidence as to the manner of calculating the fee.*

Local Audit of School Accounts.

40. Some question arose, upon the case of one of these schools, as to a local examination of the accounts of the school. Your Committee hold that the accounts of any school, or other institution, receiving grants of public money upon any condition connected with its receipts or expenditure, such as the condition as to the scale of fees charged, are liable to examination, alike on behalf of the Department responsible for administering the Vote, and on behalf of the Comptroller and Auditor General.

The Exchequer and Audit Departments Act of 1866, *especially Sections* 27 *and* 32, *confers upon the Comptroller and Auditor General the power to take such steps as he may deem necessary in order to satisfy himself of the propriety of any charge to a Vote.*

They feel confident that in exercising that power the Comptroller and Auditor General will avoid doing anything calculated to enhance the difficulty of administration, and they are equally sure that he will receive from the Department such information as will enable him to discharge his duties in the most convenient manner.

Additional Grant.

41. Under certain circumstances schools receive, in accordance with the Scotch Education Act, 1872, section 67, an additional grant of 7*s*. 6d. per scholar in average attendance. In the case of the Dysart Burgh Board School this amount was paid on an attendance of 149; but as the Department had decided that there was accommodation for no more than 132, and had given the ordinary grant for that number only, the Comptroller and Auditor General has raised the question whether the 7*s*. 6*d*. grant should have been paid for the other 17 children. . . .

Mr. Craik argued, in his evidence, that the rule of the Code defining the accommodation of a school could not be held to limit this form of grant in relief of rates. But your Committee feel that the point is open to doubt, and that it was right that it should be raised by the Comptroller and Auditor General. Before further grants are given on this basis, the opinion of the Law Officers should be taken. . . .

My Lords agree with the Public Accounts Committee that the opinion of the Law Officers should be taken on the question whether the limitation as to the numbers of children for whom the ordinary grant may be given applies to grants under Section 67 of the Scotch Education Act, 1872. A joint case should be prepared by the Department and the Comptroller and Auditor General, and, pending a decision on the point, no further grants should be given on the higher basis.

[*Note.*—The Law Officers decided that the payment of the additional grant under section 67 of the Education, Scotland, Act, 1872, is not affected by the rules laid down in the Code in respect of the ordinary grant. *See* P.A.C., 1892, Q. 1458.]

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ARMY APPROPRIATION ACCOUNT.

VOTE 11.—CLOTHING.

Rejected Stores; Loss of a Bale of Cloth.

3. The evidence as to the circumstances under which the War Office found themselves under the necessity of paying for a bale of cloth which had been rejected on inspection, and subsequently lost, is not altogether satisfactory, and your Committee trust that steps will be taken for the prompt removal by the contractors of all rejected stores, and for freeing the Department from pecuniary responsibility in the event of their neglecting that duty.

My Lords understand the Committee to concur in the suggestion made by this Department in a letter to the War Office of 6 May 1889, that notice should be given to a contractor as soon as his goods have been rejected, and that he should be required to remove them within a certain time, at the expiration of which all responsibility for them on the part of the War Department would cease.

VOTE 12.—WARLIKE AND OTHER STORES.

Explanations of Variations from Estimate.

5. The insufficiency of the explanations of variations between Estimate and Expenditure, and Appropriations in Aid estimated and realized, to which the Comptroller and Auditor General has called attention, has been admitted by the Accountant General. These explanations should always be given in sufficient detail to cover all the facts of the respective cases; and the attention which has been called to this subject will, it is hoped, have the desired effect.

The Secretary of State will, no doubt, cause fuller explanations of these variations to be given in future, as desired by the Committee.

VOTE 13.—REPAIRS TO OFFICERS' CLUB AT ALDERSHOT.

Record of Rents and other Periodical Claims.

6. The question raised by the Comptroller and Auditor General, whether the expenditure incurred in these repairs should have been charged as final expenditure against the Vote, seeing that it was to be

repaid ultimately, with interest, by the Club, is not altogether free from difficulty.

Without expressing any decided opinion upon this point, your Committee cannot but consider that, in the Accounts or Papers on which the charge to the Vote was made, the fact that a personal account had been opened by the War Office against the Committee of the Club should have been clearly brought to the knowledge of the Comptroller and Auditor General, who would then have been in a position to watch the gradual liquidation of the claim.

The Accountant General of the Army stated, in reply to a question, that this charge against the Club has been noted for recovery in precisely the same way as the rents receivable by the War Office, which amount to about £28,000 a year; and he added—

"We do not enter the liabilities of our tenants for rent in our "Account; but we have a rent-book, in which note is taken that those "rents shall be recovered. We make up a rent-roll, as it were, from "time to time; and that is separate from the general record which the "Comptroller and Auditor General examines."

Again in reply to a question on the same subject, he remarked—

"We have records, but they are not, as it were, the public records, "which are examined by the Comptroller and Auditor General."

It appear to your Committee that, having regard to the importance of the amounts involved in the various kinds of repayments recovered as Appropriations in Aid, referred to in the evidence, it is highly desirable that these records should be submitted to the Comptroller and Auditor General for inspection or examination, and that he should in his next report on the Army Appropriation Accounts, inform Parliament how, in his opinion, steps can best be taken for regularly checking the receipt of repayments or annual payments to the War Office, so as to safeguard the public interests without unduly adding to the work and cost of his Department.

The Committee here raise an important question as to giving to the Comptroller and Auditor General the means of reporting annually to Parliament upon the regularity, or otherwise, of recoveries of outstanding claims, and of the collection of rents and other periodical payments due to the War Department. My Lords cannot doubt the advantages of an arrangement for this purpose, and would inquire whether the Secretary of State sees his way to making it without any serious addition to work or inconvenience.

VOTE 19.—RETIRED PAY, &C.

Claim based upon an Error in the Royal Warrant.

8. A case in which an addition of £50 to retired pay at the rate of £300 a year had been awarded to a major of the Royal Artillery, on the strength of words in a Royal Warrant which had been inserted in error, has been the subject of protest on the part of the Treasury in correspondence published in the Appropriation Accounts. The Treasury finally decided to "leave it to the Public Accounts Committee to report "to Parliament whether the additional £50 per annum improperly "granted to Major Sheil, R.A., on the strength of this error should be "disallowed by Parliament." It was apprehended on the information given by the War Office that the case affected the possible claims of 13 officers to a similar extra payment. Your Committee are glad to learn that only three other similar cases exist; and although they entirely approve of the protest made by the Treasury, and are clearly

of opinion that in such a case the Secretary of State should have consulted the Treasury before giving his decision, they are not prepared to disallow the grant in this case, seeing that the error in the Royal Warrant having remained uncorrected during two periods, amounting in the aggregate to five years, it seems possible that officers may have formed expectations based upon the actual wording of the Warrant during those periods.

Your Committee feel bound to comment upon the apparent carelessness which caused the error to be committed in the first instance, then to remain for some time uncorrected, and, after having been corrected, to be reintroduced in a fresh issue of the Royal Warrant. The consequence, in the case of at least one officer, and possibly of four, is an irregular charge of £50 a year.

The Committee designate as "irregular" the charge of an addition of £50 per annum made to an Officer's retired pay, in fulfilment of expectations based on a frequently repeated, but finally corrected, error in the Pay Warrant, and concur in the protest of this Department against it. At the same time they are not prepared to disallow the grant.

As the particular case is thus removed from the field of dispute, my Lords hope that the Secretary of State will agree with this Department and the Committee, that a claim based on an acknowledged error in a Warrant ought not to be dealt with as a matter of indefeasible right, upon which the Secretary of State can exercise no discretion, but, if in his opinion it be worthy of consideration, should be made a subject of consultation with the Treasury.

Vote 21.—Pensions for Wounds.

Injury received by Officer acting in a Civil Capacity.

9. Although a Wounds Pension can only be granted under the Royal Warrant, when the officer has been wounded in the execution of military duty, a pension of this nature, dating from 1 January 1888, has been granted to Lieutenant-Colonel W. Everett, on account of injuries received while acting in a civil capacity as consul at Erzeroum. Under these circumstances the Treasury objected to the pension, and also held, in reply to a suggestion of the War Office, that such a grant could not be made by means of the Dispensing Warrant. They maintained that a direct application to Parliament, for the amount of compensation for the injury, would be preferable to what they ventured to think a strained definition of military duty. This view was not accepted by the War Department; and the Secretary of State finally decided to make a grant of £150 a year, under the authority of the Royal Warrant first mentioned. Your Committee regret that the suggestion of the Treasury was not acted upon; and, as the case was not one falling within the clear meaning of the Warrant, they agree with the suggestion that the only proper mode of dealing with the case was by a direct application to Parliament. Any case of this kind should be met by a special item in the Consular Vote, or should, in some other manner, be distinctly brought to the notice of Parliament, at the instance of the Foreign Office. The pension cannot be allowed as a charge against Army Votes.

It will be remembered that Lieutenant-Colonel Everett was Vice-Consul at Erzeroum, and afterwards Consul for Kurdistan, from July 1879 *to the end of December* 1887. *During this time he drew no army pay, but his service reckoned towards army pension. In April* 1885 *his house was broken into one night by a robber or assassin, and Lieutenant-Colonel Everett, in defending himself against this man, who inflicted*

several serious wounds upon him, accidentally fired a bullet into one of his own legs, with the result of permanently stiffening his ankle. The Secretary of State, " in view of the fact that this officer's duties " as a Consul in Armenia were, to a considerable extent, of a military " nature, and that while thus employed he performed services of great " military value," and finding that adequate compensation could not be made to Lieutenant-Colonel Everett under the Superannuation Act, 1859, decided to grant him a temporary wounds pension of £150 per annum from 1 January 1888, under Article 1094 of the Pay Warrant, which permits of the grant of such a pension to an officer who is reported by the regulated medical authority to have received an injury nearly equivalent to the loss of a limb, in consequence of wounds received in the execution of military duty.

My Lords thought that Article 1094 could not be applied to Lieutenant-Colonel Everett's case without giving a dangerous elasticity to its terms. They consider that his duties, though of military value, were essentially civil, and that any compensation made to him for his injuries ought to be made from Civil Votes. In this view the Committee concur, and state that " the pension cannot be allowed as a charge against Army Votes."

Their Lordships were in some doubt whether the Committee desire that the amount already paid to Lieutenant-Colonel Everett should be refunded to Army Votes; on the whole, however, they think it probable that the Committee will be satisfied if the pension be stopped from 30 June last, up to which, as they learn from Mr. Knox's letter of 14 October 1891, it has been already paid, and which completes the period of the original grant.

It appears from a medical report of 3 July last that Lieutenant-Colonel Everett is still disabled from active service by injuries to both his left leg and his right hand, and my Lords propose, with the concurrence of the Secretary of State for Foreign Affairs, to invite Parliament to grant some fitting compensation to him upon the Estimates for Diplomatic and Consular Services of next year.

NAVY APPROPRIATION ACCOUNT.

VOTE 8, SECTION III.—ADVANCES TO CONTRACTORS.

18. Your Committee learn, with satisfaction, that the Admiralty are prepared to adopt forms of contract, with instalment conditions, in all cases where the nature of the contract will admit of such conditions, and to increase the number of instalments under every large contract for propelling machinery from 16 to 26.

Your Committee trust that the adoption of these new forms of contract will have the effect of considerably diminishing the number of cases in which, under the old system, it has been found necessary to make advances to contractors which, although they were for work done, were not claimable by the contractors under the terms of their contracts, and were, to this extent, irregular. The importance of these points was urged in the Fourth Report of the Public Accounts Committee last year.

Your letter of 22 September last enables my Lords to record, under this head, that, as regards contracts for machinery, every effort is being made to prepare the schemes of payments by instalments, for defined portions of completed work, as soon as possible, and that, in the new form of contract for guns, such instalments only are provided for, the clause which permits discretionary advances being omitted.

VOTE 8, SECTION III.—SUBHEAD DD., EXPENSES OF RAISING HER MAJESTY'S SHIP "SULTAN."

Expenditure in Anticipation of Parliamentary Provision.

14. Your Committee have had under their consideration the circumstances under which the Admiralty, on 7 June 1889, entered into a contract with Messrs. Baghino for raising Her Majesty's Ship "Sultan" for £50,000, without first obtaining the sanction of the Treasury for the expenditure involved, and notwithstanding the fact that no provision had been made for this service in the Navy Estimates.

The Admiralty having, in their letter of 15 November 1889, to the Treasury, expressed their regret for the irregularity, and the Accountant General of the Navy having promised that, in future, the Admiralty will observe a rule laid down by a Treasury Minute of 20 August 1889, to govern departmental procedure in similar cases, your Committee are of opinion that the expenditure may be allowed.

The Treasury rule, to which reference is made, is intended to govern cases in which a Department finds itself under the necessity of incurring expenditure on a service before Parliamentary provision for it has been made; and is in the following terms:—[See P.A.C. 3. 1889. Treasury Minute, paras. 7–9, printed at p. 227.]

Your Committee wish to impress upon Public Departments generally, and particularly upon the War Office and Admiralty, the importance which they attach to a careful observance of this Regulation, which, in their judgment, lies at the very threshold not only of Treasury, but of Parliamentary control.

To Admiralty—

My Lords do not doubt that the Board will take steps for ensuring that the rules are carefully followed by their Department in future.

To War Department—

My Lords think it will accord with the intention of the Committee, if they here draw the attention of the Secretary of State to paragraph 14 of the Committee's Third Report, respecting the course to be pursued by naval and military Departments before incurring expenditure for which Parliamentary provision has not been obtained. It will be seen that the Committee heartily endorse the directions given upon this subject in the Treasury Minute of 20 August 1889, and attach much importance to a careful observance of them.

VOTE 9.—NAVAL ARMAMENTS.

Transfer of Provision from Army to Navy Estimates.

15. The Comptroller and Auditor General has again called attention to the fact that the important change under which, from 1 April 1888, the Parliamentary provision for Naval Armaments has been made in the Navy Estimates, instead of, as heretofore, in the Army Estimates, has not been accompanied by the corresponding changes which, in his opinion, are necessary, if the Rule involved in the Exchequer and Audit Departments Act of 1866 is to be maintained, that the Department which administers a Vote is to be directly responsible for its expenditure.

He has pointed out that, if the object contemplated in the mode of taking the Estimate is to secure direct responsibility on the part of the Admiralty for the expenditure of the Vote, it will not, in his judgment, be fully attained until the Admiralty is charged with the entire responsibility for every contract entered into on its behalf, and for every order placed with the Ordnance Factories at Woolwich, for Warlike Stores.

He further remarks that, when this has been done, the responsibility for watching the due execution of both contracts and orders, for testing and passing the stores, and for ascertaining that they are taken on Naval Store charge, should, in his opinion, necessarily follow; and that the chain of responsibility will be rendered still more complete by the measure upon which Her Majesty's Government have already decided, viz., the transfer to the Admiralty of the custody of all Naval Warlike Stores at the principal Home Stations.

In the Fourth Report of the Committee of Public Accounts, 1890, it was stated that the question as to the steps to be taken for securing that effective responsibility on the part of the Admiralty for the expenditure under this Vote, which the Exchequer and Audit Departments Act requires of all Accounting Departments, together with the further question of the transfer of the custody of Naval Warlike Stores from the War Office to the Admiralty, had been referred by the Chancellor of the Exchequer to Mr. Forwood's Committee on Naval Warlike Stores. These questions have since been considered by that Committee, who have made two Reports to Her Majesty's Government. Your Committee are glad to learn from the evidence which they have received, as well as from the statement of the Comptroller and Auditor General, that one of the recommendations of Mr. Forwood's Committee, namely, that the Admiralty shall be the custodians of their own Stores at the principal Home stations, has been accepted, and that this recommendation is now in course of being carried out.

With regard to the other questions involved in the reference, Mr. Forwood's Committee have also made recommendations which appear to be still under consideration.

Your Committee were desirous that the Reports in question should have been laid before them; and it is a matter of regret to them that, on administrative grounds, Her Majesty's Government have considered this course open to objection. Under these circumstances, your Committee confine themselves to the expression of an earnest hope that all the steps necessary for investing the Admiralty with the entire financial responsibility for the expenditure under this Vote may be taken definitely, and at an early date. They are under the necessity of recording their opinion, as was done in the Report of last year, that the present mode of administering the Naval Armament Vote is not consistent with the provisions of the Exchequer and Audit Act.

The Committee record, with apparent concurrence, the opinion of the Comptroller and Auditor General that the Board of Admiralty are still without that direct responsibility for the expenditure of the Naval Armaments Vote, which, according to the intention of the Exchequer and Audit Departments Act, ought to be possessed by the Department which administers the Vote, because the Admiralty are not charged with the entire responsibility for every contract entered into on its behalf, and for every order placed with the Ordnance Factories at Woolwich for naval warlike stores, and do not watch the due execution of both contracts and orders through the instrumentality of their own officers.

The view above expressed of the intention of the Exchequer and Audit Departments Act is based on the following words in Section 22: "Provided always, and it is the intention of this Act that the Treasury "shall direct that the Department charged with the expenditure of "any Vote under the authority of the Treasury shall prepare the "Appropriation Account thereof." In that section Parliament insists on the important principle that the Department which spends the Vote shall account for it. My Lords, however, hold that this principle does not, and ought not to, exclude the agency of one accounting Department

for another, a practice which is widely spread through the public service. An agency that deprived the principal Department of all initiatory authority and discretion in regard to expenditure by the agent might be incompatible with the principle in question. But my Lords do not think that this deprivation need be, or is, the consequence of the Director of Army Contracts or of Army Inspectors acting on behalf of the Admiralty.

The Director of Army Contracts enters into no contracts, and allocates no orders to the Ordnance Factories for naval warlike stores, except at the bidding, or with the previous concurrence, of the Admiralty. Their responsibility for expense is no more impaired by his intervention than if they employed a private buyer in the trade. Indirectly, the Director of Army Contracts must always act more or less for the Admiralty, because he will in any case contract for the materials to be used in the Ordnance Factories for naval orders.

In like manner, if the Admiralty have approved of a contract for guns at a factory where army guns are being manufactured at the same time, and a single army officer on the spot can be employed to inspect the progress of the guns for both services, the Admiralty only show their regard for economy in concurring in the arrangement, and lose no responsibility for the expense thereby.

Judging from Q.895, the Comptroller and Auditor General does not object to the agency of the Army Inspection Department being employed by the Admiralty for testing and passing naval ordnance stores.

My Lords have approved of the complete separation of army from naval warlike stores at Woolwich and at the home ports, and have sanctioned the creation of a special Naval Ordnance Store Department for the custody, and for accounting for the receipt and issue, of naval warlike stores. It remains to be seen what further transfers of work connected with these stores ought to be hereafter effected between the War Department and Admiralty; but the question involves risks of competition between Departments in the markets, of loss of interchangeability of stores, of increases of establishment, and of duplication of work, against which Her Majesty's Government must be on their guard, and it must be settled upon grounds of general administrative expediency, rather than upon what seems to my Lords to be a somewhat strained interpretation of a sentence in the Exchequer and Audit Departments Act.

ARMY (ORDNANCE FACTORIES) APPROPRIATION ACCOUNT.

Excess Vote not necessary for Deficit.

22. . . . The manner in which deficits upon this Vote should be treated was the subject of investigation by the Committee of Public Accounts of 1890,* and has again been the subject of inquiry by your Committee in the present Session.

It is necessary, in the first instance, to point out that this Vote is of an exceptional character, inasmuch as, although the expenditure of the Factories amounts to nearly two millions and a half, the Parliamentary Vote is for a merely nominal amount, the expenditure being met out of Appropriations in Aid, which consist of the amounts paid by the War Office, Admiralty, India, and the Colonies for Armaments and other Warlike Stores manufactured and supplied, or in process of manufacture.

The respective Departments and Governments make cash advances from time to time to enable the Factories to carry on their business;

* See P.A.C. 5. 1890. 6, at p. 258.

and final payments or adjustments are made when the War Office have made up their accounts for completed orders, and have arrived at the ascertained value of labour expended, and stores used on semi-manufactured articles.

The War Office have unfortunately not hitherto been able to get out their Production Voucher, or their claim for semi-manufactures, until many months after the termination of the Financial Year. The Production Voucher for 1888–89 was not forthcoming until the end of November 1889; whilst that for 1889–90 was not completed until January 1891.

This circumstance has been the cause of serious inconvenience; for, until the final claims are received, the Departments cannot know for certain whether the advances they have made are, or are not, in excess of the amounts they will be called upon to pay; and when, as in the case of the Admiralty, it was found that, in consequence of the inaccuracy of the forecasts of expenditure on the part of the Factories, the advances in 1888–89 were £54,000 in excess of the value of the work done, the knowledge came too late to be of practical utility; and the inaccuracy of the forecast had consequently the effect of diminishing the spending powers of the Admiralty by that amount. As the business of the Ordnance Factories is carried on on a professedly self-supporting basis, the Departments being charged the actual cost of production, it follows that any deficit shown upon the Account arises not necessarily from the fact that the expenditure has exceeded the amount anticipated, but from the circumstance either that the claims of the Factories have not been wholly paid, as last year; or, as in the case of the present Account, that the Factories have incurred capital expenditure which has not been wholly covered by the prices charged for the articles manufactured; or, as may hereafter be the case, from the fact that the amount voted for capital charges in respect of permanent additions has been insufficient to meet the charges. Hence the deficits are, for the most part, of a more or less temporary character; and, to meet them in the same way as deficits on ordinary Votes are met, would be to vote money which sooner or later would have to be paid over to the Exchequer, a course manifestly undesirable.

The deficits on the Ordnance Factory Votes may therefore have to be dealt with in an exceptional manner. Last year, at the instance of the Treasury, your Committee agreed that the deficit on the 1888–89 Account should be charged against the Accounting Officer until it was realized; and they are inclined to think that it will be difficult to adopt any other course with regard to the deficit upon the present Account. The Comptroller and Auditor General has suggested that to charge the accountant with this deficit is not altogether a satisfactory mode of procedure, and that the absence of finality may be fairly considered as open to objection.

The Secretary of State will perceive that the Committee are in favour of allowing this deficit to remain outstanding on the account charged against the Accounting Officer, until balanced by surpluses of subsequent years, instead of taking an Excess Vote for it.

My Lords approve of this course being adopted. . . .

Fixed Prices suggested.

22. (*continued*). He has also been much influenced by these considerations, as well as by the disarrangement of departmental finance arising from the inaccurate forecast of probable expenditure to which Mr. Forwood's evidence called attention last year, but more especially by the grave inconvenience which resulted from the late compilation of the Production Voucher. This has precluded, first, a proper examination on the part of the War Office and Admiralty of the Factory claims

before they are charged as final expenditure against their Votes; and secondly, their subsequent examination by the Comptroller and Auditor General before he reported upon the Appropriation Accounts. Consequently, with a view to removing these difficulties, he has submitted to your Committee a Memorandum, in which he has suggested for consideration the advisability of making the Factories more distinctly a trading concern :—

(*a*) By providing them with a fixed capital, at interest, in lieu of large and long-outstanding imprests from Army and Navy Votes.

(*b*) By placing the Factories in the position of a contracting firm, making articles under tender at a fixed price, which should exclude loss, and with stringent conditions as to date of delivery.

(*c*) The present Ordnance Factory Vote to be a pure Token Vote, such as the Bankruptcy Vote now is, in order to maintain Parliamentary control over Salaries, &c.

(*d*) The provision in Army and Navy Estimates to be for so many Guns, Carriages, Projectiles, &c., to be made by contractors, and so many and so much to be expended in procuring them from the Ordnance Factory, to be paid for on delivery in both cases.

Your Committee have taken some evidence on the subject of this proposed change from Sir Reginald Welby, the Permanent Secretary of the Treasury; and from Mr. Knox, the Accountant-General of the Army, as well as from Sir Charles Ryan.

Your Committee learn from Mr. Knox that confident hopes prevail in the War Office that the Production Voucher will in future be completed at a much earlier date, and that the forecasts of expenditure will be more accurate. Your Committee cannot judge how far these anticipations will be realized in practice. But should the evils, to which the Comptroller and Auditor General has called attention, not be speedily remedied, your Committee are convinced that some altered system would have to be introduced. At this stage, the changes which he has suggested in his Memorandum and which he has most usefully explained before your Committee, clearly deserve careful consideration by the Treasury and the Departments affected, but are not yet ripe for any expression of opinion on the part of your Committee.

The Committee recommend that my Lords and the Departments affected should carefully consider the suggestions made by the Comptroller and Auditor General for the purpose of placing the factories more completely on the footing of a trading concern.

As explained to the Committee in evidence, the object of these suggestions accords with that which the Treasury has had in view from the outset in 1888.

The advantages which specially strike my Lords in Sir Charles Ryan's plan are the following:—

1. *The incentive to economy that would be furnished to the Ordnance Factories if they were obliged to keep actual cost within a previously fixed price; provided that equal excellence of work can be maintained.*
2. *The convenience to customers of knowing exactly what they will have to pay for articles delivered within the year, instead of having to trust to necessarily inaccurate forecasts.*
3. *The cessation of advances of money by customers in the dark.*
4. *The greater accuracy of the estimates of the Army and Navy Armaments Votes, when based on previously known prices and quantities, provided that punctuality of deliveries can be secured.*

5. *The rapidity of bringing the cost of supplies to charge against those Votes.*
6. *The making those Vote Accounts entirely independent of the Ordnance Factory Accounts, and the simplification generally of the relations of customers with the factories.*
7. *The facility of comparing prices with the trade, and the stimulus thereby given to competition.*

No doubt, under his plan, there must be a continued risk of either loss or profit upon each price, but the one would be set against the other, and the dealing with the net result need present no greater difficulty than the inevitable deficit or surplus on the Vote that now annually recurs.

The provision of a working capital for the factories cannot be avoided, whether it bear that name, or be called advances on orders or charges for semi-manufacture, or a reserve of surpluses to meet deficits. The lands and buildings and the stock of materials and semi-manufactures in hand on 1 April 1888 represent the capital originally invested in the factories. Interest on capital was included in No. 2 Balance Sheet prices before 1 April 1888, and my Lords suggested that it should again be a factor in the price of supplies in their Minute of 10 January 1891.

My Lords observe that the production statement, or voucher, would still be required; not, however, as the foundation of the charge made by the factories to their customers, but as the necessary means of enabling the factories to compare their prices with actual cost.

The inequalities between price and actual cost might involve either a profit to the factories or a gain on a particular order to, say, a Colonial Government, at the temporary loss of the factories, and therefore of the British public at whose risk they are carried on; but this would be met, where practicable, by an adjustment of prices on future orders. It would be expedient to fix prices with the intention of securing an invariable profit, but as narrow a one as possible.

My Lords think it not impossible that arrangements of the nature indicated by Sir Charles Ryan may have to be adopted. The particular difficulties, however, which prompted their suggestion, and which were caused by a very late and irregular rendering of the production voucher, and by a very inaccurate forecast of costs, will not recur, if that voucher can hereafter be rendered not later than in July of each year, as expected by the Accountant-General of the Army, and if greater accuracy of estimate be attained by the factories; and my Lords are of opinion that it will be wise to obtain further experience of the system now in force before any radical changes are introduced into it. It is in possession and can claim a fair trial, and ought not to be altered without the concurrence of the leading Departments concerned.

Annual Accounts of the Ordnance Factories.

Stocktaking.

32. The Comptroller and Auditor General has pointed out that the stocktaking at the Ordnance Factories now consists of a more or less continuous stocktaking, conducted on behalf of the Director General, who is himself responsible for the stores.

It appears, from the evidence, that three men are employed in examining and testing; but that the only stocktaking wholly independent of the factories contemplated by the War Office will be that effected by some officer to be sent down from time to time at their discretion.

It appears to be doubtful whether such a system of stocktaking fulfils the conditions laid down by the Treasury Minute of 15 November 1886,* . . .

My Lords agree with the Committee and the Comptroller and Auditor General in attaching importance to an effective stocktaking independent of the factories.

ARMY (CLOTHING FACTORY).

37. The Comptroller and Auditor General points out that the Clothing Factory is not on the same self-supporting basis as the other Army Factories; and that the accounts merely set out the statistical results of manufacturing operations for which provision is made in Army Votes. Your Committee consider that attention should be called in their Report to this difference between these Army Manufacturing Accounts.

The Committee and the Comptroller and Auditor General remark upon the difference between the Clothing Factory and the Ordnance Factories, arising from the former being simply a function of the Army Clothing Department, whilst the latter are independent manufacturers, buying their own materials, and selling their goods on self-supporting terms. It seems to my Lords that this difference is sufficiently accounted for by the fact that there are several rival customers competing for the execution of their orders by the Ordnance Factories, and jealously watchful of precedence and prices. It was, therefore, expedient to place those factories in a position of independence in which they could deal with an even hand with all customers. On the other hand, the Clothing Factory, though it inspects for several Departments, practically manufactures for the Army alone, if my Lords are not mistaken.

DOCKYARD EXPENSE AND MANUFACTURING ACCOUNTS.

Labour—Tonnage.

47. The Comptroller and Auditor General, in his Report, criticizes somewhat severely the system which has hitherto prevailed for payment of labour according to the amount of tonnage built into the ships at the dockyards. The Admiralty admit that the system is not at present satisfactory.

Your Committee hope that the plan of payment by piece-work, if continued, will be found susceptible of being placed, as anticipated, on a sound footing.

Task and Job (Piece-work).

48. With regard to what is termed task and job (piece-work), your Committee are informed that, since November 1889, a system of independent check has been adopted which may prevent a repetition of the irregularities which have been brought to notice.

49. Your Committee are also informed that it is under consideration to adopt a system of dealing with task and job measurements by which an independence of record may be secured.

These payments, whether calculated by tonnage or by task and job, seem to have been accompanied by considerable irregularities in certain instances. My Lords are glad to see that amendments of method are being introduced which will, it is expected, lead to greater accuracy and uniformity of practice.

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* *See* p. 190.

Stock Valuation.

51. Your Committee consider that it is essential to the utility of the Stock Valuation Account that frequent and independent comparisons should be made of the state of items of stock as shown by the Value and Quantity Records respectively, and are of opinion that arrangements should be made for a sufficient test in this respect.

My Lords concur with the Committee as to the importance of a frequent and independent comparison of items in the Quantity and Value Ledgers respectively.

[A special officer was subsequently appointed to go round from yard to yard and make these comparisons. P.A.C. 2. 1894. 77; and 3. 1895. 54.]

VICTUALLING YARD MANUFACTURING ACCOUNTS.

Proposed Expense Accounts.

59. The questions with regard to extending the scope of the Victualling Manufacturing Accounts, so as to cover the main lines of "Expense" under Vote 2 of the Navy . . . are still unsettled . . .

It was stated in the Treasury Minute of 10 *January* 1891, *on the Fifth Report of the Public Accounts Committee,* 1890, *that my Lords did not desire that any great expense should be incurred for the purpose of converting the Victualling Yard Accounts into expense, as well as manufacturing, accounts; but it was asked whether a "summarized balance sheet," such as had been suggested by the Comptroller and Auditor General, could not be prepared without serious cost.*

In a reply dated 21 *March last the Admiralty repeated the statement made in a previous letter of* 15 *March* 1890, *that the preparation of Victualling Expense Accounts would cost* £1,200 *per annum, and was not recommended by the Board. The Admiralty further stated that a summarized balance sheet would cost* £400 *per annum, and would give no information required by the Board.*

Upon the whole my Lords do not think it advisable to press the suggestion further at the present stage.

SECOND REPORT, 1892. H.C. 180.

Treasury Minute, 5 *November* 1892.

NAVY APPROPRIATION ACCOUNT.

VOTE 8, SECTIONS II. AND III.—PAYMENTS IN CONTRAVENTION OF THE CONDITIONS OF THE CONTRACT.

5. In the course of the audit it was found that, in the case of H.M.S. "Seagull," the final payment was made to the contractors for the propelling machinery without the trial at full steam power to which the engines were to have been subjected according to the terms of the contract.

The Comptroller and Auditor General has reported that subsequently 10 other similar cases were noticed, and that, on further inquiry, the following list was furnished by the Admiralty of 28 ships in which the full forced draught power trials were not carried out:—

* * * * *

It is clear, and is admitted by the Treasury, that the contractors were entitled to their money. But the Treasury maintain, and in the opinion of your Committee with good reason, that the Admiralty committed an irregularity in making the payments without first consulting the Treasury. Under the contract a certain proof of efficiency was required before public money could be claimed. To dispense with this condition in connexion with the payment of public money was a waiver of public rights which required the previous concurrence of the Treasury.

Your Committee were assured by Mr. Durston that the practice is continued of inserting in contracts the condition compelling the engines to be tried under the charge of the contractors under steam at full power, and that the forced draught, as well as the natural draught trials are required, as before.

Extract from Treasury Letter, 19 August 1892, appended to T.M. 5 November 1892:—

If a Department contracts, on behalf of the public, to pay a certain sum for goods, on proof of their bearing successfully specified tests of excellence, and subsequently waives those tests, and pays the money without them or any other equivalent to them, the contract is departed from, the protection it was meant to secure to the public is abandoned, and the public may not get the precise return for their money which the contract entitled them to receive.

It is this risk of public loss, where the amount involved is considerable, that calls for the intervention of the Treasury. The Public Accounts Committee have often maintained that payments in contravention or outside the terms of a contract require Treasury sanction, as a safeguard of the public purse.

To take the particular case in point, the Treasury of course cannot pretend to judge what are the proper tests of a ship's machinery; but if the Admiralty have to come to this Department for concurrence, before waiving any substantive part of the tests prescribed specifically in the contract, the reasons for it have to be placed on record, and must be such as to satisfy an ordinary man that the sole motive is the public interest.

* * * * *

As already intimated, My Lords are quite unable to judge whether the particular modifications are expedient, but they feel no doubt that they are made in the interests of the public, not of the contractors, and involve no necessary change in the quality or power of the machinery. I am to add that an alteration in the form of future contracts might leave more discretion to the Admiralty in the matter of tests, and thus obviate the need of reference to the Treasury.

Vote 8.—Section II.

Loan of Yacht to Civil Department.

6. This Navy Vote bears a charge of £121 19*s.* 6*d.* for coal consumed by H.M.S. "Enchantress" during the Secretary for Scotland's official tour to the Orkney and Shetland Islands. Such expenses ought clearly to have been borne by the Civil Service Vote for the Office of the Secretary for Scotland; and the fact that a Supplementary Estimate would have had to be voted should not have prevented the adoption of the only correct course of action. At the instance of the Treasury, the Admiralty have undertaken, in similar cases in future, to warn Departments employing Admiralty vessels for civil purposes of the liabilities which they incur.

If a Civil Department borrows a vessel from the Admiralty for its own use, the Vote for that Civil Department, or for the service on which the vessel is engaged, ought, in the absence of Treasury directions to the contrary, to bear any direct charge incurred by the Admiralty in consequence, such as the cost of fuel consumed by the vessel during her employment; and it is important that warning of this liability should be given by the Admiralty whenever the loan of a vessel is applied for.

VOTE 9.—NAVAL ARMAMENTS. GENERAL REMARKS.

Admiralty Responsibility for Expenditure.

7. Last Session the Committee of Public Accounts expressed their earnest hope that all the steps necessary for investing the Admiralty with the entire financial responsibility for this Vote might be taken definitely and at an early date."

The Report of the Comptroller and Auditor General, and the evidence of the Accountant General of the Navy, give satisfactory proof that important steps have since been taken to effect this object. Contracts before being accepted are referred for concurrence to the Admiralty, who thus distinctly recognize their responsibilty for all contracts entered into on their behalf by the War Office, acting as their agents. The Admiralty also obviously recognize their responsibility with regard to those Naval Orders which are placed by the War Office with the Ordnance Factories for execution. It further appears that the Admiralty have taken over the custody of the Naval Ordnance Stores at Woolwich and the other Depôts in this country, and that the Departmental examination of the Naval Ordnance Store Accounts has also been transferred from the War Office to the Admiralty.

Your Committee have also heard with satisfaction from the Accountant General of the Navy that the Board of Admiralty now "accept the responsibility for the Naval Armaments Vote, and for "expenditure in connexion therewith." These are undoubtedly most important steps in the right direction.

8. It is, however, a matter for regret that at present the Admiralty appear to be unwilling to accept responsibility for the test and proof of guns, or for the inspection of warlike stores, duties which are now performed by the officers of the War Office.

Your Committee, having regard to the fact stated in evidence that the Ordnance Committee is a joint committee of the Army and Navy, cannot but think that on further consideration this difficulty may be overcome in a similar manner, and that, if the tests to be applied are mutually agreed upon by the officers of the two Departments acting in concert, the Board of Admiralty may yet feel themselves in a position to accept the full responsibility for the decisions given on their behalf by the Inspection Department of the War Office.

In any case, your Committee hold that it is now to the interest of the Admiralty, no less than of the War Office, that the practical responsibility for test and proof of naval guns and stores should be undertaken by the former Department, whether the War Office acts as their agent or not, as the Admiralty will be held in future to have been invested, in accordance with the Exchequer and Audit Act, with full financial responsibility for all their expenditure under the Naval Armaments Vote, and to be unable to disclaim such responsibility, or to throw any part of it on the War Office.

My Lords refer to the remarks made on this subject in their Minute of 5 January 1892 on the Third Report of the Public Accounts Committee, 1891. They are glad to observe that the Committee now acknowledge that, as maintained in that Minute, the Admiralty are invested under existing arrangements with full financial responsibility for the expenditure of the Naval Armaments Vote.*

As regards the proof of naval guns and other warlike stores, my Lords cannot see why, if the nature of the proof to be applied be agreed upon, the Admiralty should not continue to accept the agency of the Inspection Department of the War Office, so long as reasons of economy and convenience exist for their doing so.

VOTE 9.—SUPPLIES OF ORDNANCE TO OTHER DEPARTMENTS.

Credit to Debit Subhead.

9. The Public Accounts Committee last year remarked, with the support of the Treasury, in their Minute of 5 January 1892, on the danger of abusing the power of crediting the Debit Subhead with the amounts received for these supplies, instead of treating them as Appropriations in Aid.†

Your Committee share the satisfaction expressed in a Treasury letter of 11 March 1892, quoted to them by the Accountant General of the Admiralty, that " no departure from ordinary rule proved necessary in " dealing with the payments by the War Department for transferred " warlike stores in 1890–91, the whole of such payments having been " credited to Appropriations in Aid of Vote 9 for that year."

But during the three years 1891–94, that is to say, until the expenditure under the Naval Defence Act must cease, the Treasury will allow certain repayments to be " credited to the Debit Subheads which " bore the first cost of the stores transferred, or to the Consolidated " Fund Account, as the case may be, provided that the transfers are " made under carefully prepared and well-recognized regulations to " meet genuine and necessary store requirements which could not be " met so effectually in any other way, and are not made with any view " to financing." The draft regulations asked for by the Treasury are being prepared by the Admiralty.

Your Committee can only repeat the opinion expressed in last year's Report that the arrangement is one which should be carefully watched by the Comptroller and Auditor General.†

10. The danger of irregularities is illustrated by the experience of the year in question, 1890–91. Although, ultimately, the ordinary rule was followed, and all repayments were credited to the Appropriation in Aid Subhead of Vote 9, and although, in the end, there was no deficit, but a saving, on the Vote, these results were apparently due to the active intervention of the Treasury, to whose letter, of 19 May 1891, the Comptroller and Auditor General has called attention in his Report.

In that letter, the Treasury informed him that " when the year was " little more than three months old, the Admiralty announced that they " had already issued orders which would land them in a deficit of over " £700,000 " (on a Vote of £1,465,100 gross). " But my Lords " declined to be parties to such a proceeding. The financial arrangements

* On para. 15, *see* pp. 279-80.
† P.A.C. 8. 1891. 18, H.C. 861.

" of the year had just received the sanction of Parliament; and the " interests of other spending departments and of the public generally " demanded that those arrangements should not be upset. My Lords " insisted, therefore, that some means should be found of keeping the " expenditure within the bounds prescribed by Parliament, either by " suspending orders already issued or otherwise."

As to the measures that were taken by the Admiralty to carry out the directions, some details will be found in the Treasury letter above quoted, in the evidence taken by your Committee, and in a letter from Mr. Forwood, Financial Secretary to the Admiralty, dated 6 April 1892, and printed in the Appendix of this Report. In this communication Mr. Forwood states, as an explanation of the issue of orders which would have produced a deficit of £700,000, that, when the Estimates for 1890–91 were prepared, the Admiralty's approximate estimate of the liabilities which would probably be outstanding on 31 March 1890 was £450,000 under the mark.

While desiring to make all reasonable allowance for difficulties of estimating, in a case where, at that time, the War Office to a large extent administered the Vote and kept the accounts, your Committee are satisfied that, when the Estimates were prepared, the forecast of outstanding liabilities on 31 March should not have been wrong to the extent of nearly half a million.

But it is even more evident that the true state of these facts should have been ascertained before new and extensive orders were given, which involved, as the Admiralty afterwards announced, when the year was little more than three months old, the prospect of a deficit of £700,000 on the Naval Armaments Vote.

11. The Comptroller and Auditor General has reported that, among the arrangements made to restore the financial equilibrium of the Vote, it was proposed that the War Office should repay to the Admiralty the amounts of certain instalments on contracts paid in previous years, and also buy from them stores purchased in previous years.

Your Committee agree with him that this proceeding was one of the class of cases in which the Public Accounts Committee had apprehended that abuse might arise; and they are glad to learn that, at the instance of the Treasury, seconded by the Comptroller and Auditor General, the sums in question were all treated as part of the Appropriations in Aid of the Vote. The result is that these exceed the estimated amount of the Subhead by £116,750 8*s*. 6*d*.

My Lords received some draft regulations prepared by the Board of Admiralty, and transmitted in your letter of 8 *August* 1892, *under which the repayments made in respect of certain of such transfers may, until* 31 *March* 1894, *be credited to the Debit Subheads which bore the first cost of the stores transferred. In the Treasury letter of* 1 *September* 1892, *the Board were asked to revise these Regulations so as to make them secure that transfers are only made to meet genuine and necessary store requirements which cannot be met so effectually in any other way, and that all view to financing is excluded.*

Their Lordships concur in the remarks of the Committee regarding the miscalculation of liabilities, and undue issue of orders, which threatened so heavy an excess on the Naval Armaments Vote for 1890–91, *and the extraordinary steps taken at the instance of the Treasury to avoid that excess. They hope that such circumstances will not recur.*

ARMY APPROPRIATION ACCOUNT.

VOTE 3.—YEOMANRY CAVALRY.

Administration, and Audit Criticism.

28. The Comptroller and Auditor General wrote to the War Office, on 16 November 1891, noticing a discrepancy between the numbers of enrolled men and the minimum numbers provided for in the regimental establishments of the respective Yeomanry corps, as shown in the Estimates. He pointed out that in nine only of the 39 corps was the minimum number reached. In 30 corps that minimum should have amounted to a total of 8,106, whereas the total was only 6,059. Moreover, these 30 corps were entitled to only 144 troops under the regulations, whereas there were 208 troops. He added: "Regarding the "subject from a financial point of view, the Comptroller and Auditor "General cannot but note the considerable additional cost, probably "exceeding £5,000 per annum, which is involved in the Yeomanry "regiments being divided into a number of troops so largely in excess "of that contemplated by the regulations; and, while he does not "doubt the existence of administrative grounds for the course which "has been followed, he would be glad, in view of the financial con-"siderations involved, to be furnished with any observations on the "subject which the Secretary of State may desire to offer."

Seeing that the number of troops was in excess of that contemplated by the regulations, and that considerable additional outlay was apparently the result, your Committee cannot but regard this inquiry by the Comptroller and Auditor General as perfectly natural, proper, and indeed necessary. They notice, moreover, that it was guarded by the courteous suggestion that doubtless there might be administrative grounds for the course followed.

Your Committee, therefore, regret that the inquiry was not met in the same spirit, and that the only reply given was "that the subject "is one of administration, on which Mr. Secretary Stanhope must "decline in any way to recognize the right of the Comptroller and "Auditor General to invite his observations."

The only excuse which can be made for such a reply is suggested by Mr. Knox's evidence, which leads your Committee to think that the Comptroller and Auditor General's inquiry was strangely misunderstood, and was interpreted to make an administrative recommendation, which he never made, as to the number of troops. He was clearly within his right, as Mr. Knox admitted, in drawing attention to the fact that the number of men in the troops was not up to the number required, as a rule, for each troop.

The Public Accounts Committee in 1888, with the support of the Treasury, in a Minute of January 1889, have reported their strong opinion that it is desirable that the Comptroller and Auditor General should call attention to points of this kind.* And in relation to this particular case Mr. Ryder, in his evidence, expressed his belief that the Treasury would hold that the Comptroller and Auditor General was justified in making this inquiry, and that it is very important that the regulations made by the Secretary of State, with Treasury sanction, should be obeyed.

Your Committee trust that, in performing the important and necessary work entrusted to him by Parliament, the Comptroller and Auditor General will in future be met with invariable courtesy, and

* P.A.C. 2. 1888. 72, *see* p. 207.

furnished by the War Office, as well as by every other Department, with all the information which he may need to enable him to discharge his duties.

Mr. Knox, in his evidence, argued that if the regulation had been obeyed the expenditure would have been the same. The Comptroller and Auditor General will doubtless consider these explanations, which might have been communicated to him before; and, if he is not satisfied with them, and still considers that financial interests are affected, your Committee are sure that he will not be deterred from further pursuing the matter and, if necessary, reporting upon it next year.

The regulations require a minimum number of 42 privates in a troop, as a general rule, by which my Lords understand that a merely casual and temporary deficit of numbers would not be a disqualification for the allowance issuable for each troop. It is also within the power of the Secretary of State to allow any excess of numbers in one troop to reckon against a deficiency of numbers in another troop of the same regiment.

The Comptroller and Auditor General, however, has drawn attention to a very large and widely spread deficiency of actual numbers, as compared with the minima prescribed by the regulations and shown to Parliament in the Estimates, extending to 30 out of the 39 regiments of Yeomanry Cavalry, and has pointed out that a strict adherence to the regulations would probably have saved the country over £5,000 in 1890–91.

My Lords think that the Comptroller and Auditor General was justified in commenting on a matter of so much financial importance, and in affording the War Department an opportunity of giving any explanation of it they might wish to offer.

VOTE 11.—RETIRED PAY, &c.

Pension granted to Widow of defaulting Officer.

32. Details were explained to your Committee in relation to a case to which the Comptroller and Auditor General draws attention. After the suicide of a Lieutenant Quartermaster of the Medical Staff, it was found that, under circumstances which his own letter to the Director General of the Medical Department described, he had misappropriated public money, so that a deficiency of £136 was found in his accounts. But, subject to an annual deduction till this amount has been replaced, a pension has been granted to the widow, and compassionate allowances to the children.

After hearing Mr. Knox's evidence, Mr. Ryder, of the Treasury, suggested that there appeared to be circumstances that would excite compassion in this particular case.

Your Committee adopt this view, and do not doubt that, if the War Office were to submit the case to the Treasury, as one in which a dispensing power might fairly be exercised, the pension and allowances would be sanctioned.

But the Treasury rightly objected to them as not having been earned by the " good and faithful service " which alone under the Pay Warrant (Articles 1098 and 1105) can justify such grants. Without Treasury authority these grants, and the arrangement for recovering the sum which was misappropriated, are irregular.

Notwithstanding the recommendation of the Committee, my Lords do not feel justified in giving their covering sanction to the pension and compassionate allowances which have been granted . . . and they could not approve of the arrangement made for recovering the embezzled money from the pension. Thy are, however, considering whether certain reduced grants may not be made under the Dispensing Warrant.

Checking Cash Balances of Sub-Accountants.

33. Mr. Ryder undertook that the Treasury would consider the expediency of pressing upon the Departments, in the case of officers in a similar position, the adoption of an efficient system of checking the balances left in their charge.

The Committee were not satisfied that the cash balances of sub-accountants, such as the Quartermaster in question, are checked as often as they might be with advantage. My Lords would ask the Secretary of State to consider whether surprise surveys could not be made more frequently without additional expense to the public.

But whether this suggestion be practicable or not, my Lords request that the issue of imprests to these sub-accountants may be very closely watched, and limited to the smallest amount compatible with the due conduct of the public service. It is evident that Warrington drew in the first half of March 1891 *more than he would have required if he had made all the payments that he ought to have made during that period;* . . .

ARMY (ORDNANCE FACTORIES) APPROPRIATION ACCOUNT.

Frauds in the Building Works Department at Woolwich.

Administrative Advantage of Audit.

39. The Treasury have founded on the evidence given before your Committee a letter, dated 5 April, printed in the Appendix, in which it is pointed out that, had not certain warnings of the Audit Office been disregarded, the fraud would have been discovered earlier, if not in part prevented.

Your Committee quote this remark of the Treasury because it illustrates the advantage which Departments might often derive from greater alacrity in attending to points raised by the Comptroller and Auditor General. The assistance afforded by a thorough system of audit deserves a welcome which it does not always receive from those who are responsible for administration.

My Lords . . . concur in the view of the Committee.

Expenditure and Receipts in Excess of Estimate.

41. The gross expenditure has exceeded the amount sanctioned by Parliament by £36,722 8*s*. 10*d*.

The Treasury hold, and your Committee concur, that an excess Vote must therefore be taken.

The Department cannot, according to the rule laid down when Appropriations in Aid were sanctioned, avail themselves of the fact that there is an excess of receipts amounting to £43,242 19*s*. 8*d*. over the Appropriations in Aid of this Vote shown in the Estimate.

It will be seen that the Committee agree with the Treasury that an excess of this kind on the Ordnance Factories Vote, even though met by an equal excess of receipts, must be covered by an excess Vote of Parliament. My Lords request that one may be presented next Session accordingly.

FOURTH REPORT, 1892. H.C. 277.

Treasury Minutes, 3 October and 5 November 1892.

CIVIL SERVICES APPROPRIATION ACCOUNTS.

CLASS I.

New Works begun without Parliamentary Authority.

1. On many Votes in this Class, the Comptroller and Auditor General has noticed that cases have occurred of expenditure incurred for new works for which no provision had been made in the Estimates.

While your Committee recognize the fact that every new work which it may prove necessary to undertake during the year cannot be foreseen when the Estimates for Public Works and Buildings are framed, they are of opinion that these deviations from the year's programme laid down in the Estimates need to be carefully watched. The Treasury sanction, which has in all such cases to be obtained, is doubtless not lightly given. It should be reserved for cases of clearly-proved necessity, where public interests would suffer if the works were postponed for the purpose of obtaining Parliamentary sanction by means of a vote in Committee of Supply.

T.M. 3 October 1892.—*My Lords agree with the Committee that new works not provided for in the Estimates should not be undertaken except in cases of clearly-proved necessity. But it is the duty of this Board to determine, in each case which comes before them, whether such expenditure should be incurred without previous notice to Parliament, having regard to all the circumstances of the case.*

With reference to the statement of the Committee that such deviations from the year's programme laid down in the Estimates need to be carefully watched, I am to say that my Lords think it desirable that somewhat fuller explanations should in future be given in the Appropriation Accounts under the head "Explanation of the causes of variation between expenditure and grant," in the case of subheads for new works. On the principal subheads of this nature the explanation might be somewhat as follows: "Net saving" (or "excess," as the case might be); "for details see *appended Paper A." That paper might then be in a form resembling that used by the Irish Board of Works* (see *pages 61 to 66 of the Appropriation Accounts for* 1890–91), *with a column for "Observations."**

It should further be remembered that large savings, such as those upon London University and Edinburgh Observatory Buildings (*p.* 13 *of Appropriation Accounts for* 1890–91), *require explanation no less than do considerable items of unforeseen expenditure.*

CLASS III., VOTE 15.—SUPREME COURT OF JUDICATURE, &C., IRELAND.

Audit of Extra Receipts.

8. The Comptroller and Auditor General's desire to check the accuracy of the amounts brought to account under this Vote as extra receipts was frustrated by the reply from the Land Judges' Office, to the effect that the calculation of the duty receivable under the Statutes

* This change of form was made in the Accounts for 1891-92, and was approved by P.A.C. 8. 1893. 25.

was a judicial act. Your Committee agree with the Comptroller and Auditor General that this calculation cannot be held to be a judicial function. They trust that every information needed by the Comptroller and Auditor General for the purposes of audit will in future be afforded to him.

Your Lordship will observe that the question raised . . . refers to the claim of the Auditor General to be furnished with the figures on which are based the calculations of duty under 29 & 30 Vict. c. 99, and prior Acts. He puts forward no claim to question any judicial act of the Court, but merely desires information to enable him to discharge his duties under the Exchequer and Audit Departments Act of 1866. Their Lordships venture to hope that, your attention and that of the Land Judge having been called to the matter, the wish of the Committee will be fulfilled, "that every information needed by the Comptroller "and Auditor General for the purposes of audit will in future be "afforded to him."

VOTE 19.—CONSTABULARY OF IRELAND.

Exceptional Expenditure under "Incidents" or "Miscellaneous."

Upon this Vote the Comptroller and Auditor General calls attention to a charge of 7l. to Subhead Q., "Incidental Expenses," for damages awarded against two constables in an action for false imprisonment, and he suggests that, when charges of this nature are included under the subhead "Incidents," special reference to them should in every case be made on the face of the Appropriation Account.

My Lords quite agree that when exceptional items are charged to subheads such as "Incidents" or "Miscellaneous" it is only right that they should be openly referred to in the Account; and they consider that the adoption of this course is preferable to an excessive multiplication of special subheads. But the addition of a note to the Account must be a question of discretion in each particular case, depending not only on the character of the special item, but also upon its amount; and differences of opinion must be expected as to whether a particular item is sufficiently important in either respect to deserve special notice. My Lords, however, when any case of this nature comes before them, will not fail to consider the propriety of referring to it in a note upon the Account.

Let this expression of their Lordships' intentions be noted in the several Divisions of the Treasury.

CLASS IV., VOTE 1.—PUBLIC EDUCATION, ENGLAND AND WALES.

Ninepenny Fee.

9. Last Session the Public Accounts Committee, upon the Vote for Education, Scotland, fully considered and reported upon the question of the proper interpretation to be put—in the light of an opinion given by the Law Officers of the Crown—upon the limitation of the ordinary payments in respect of the instruction in "elementary schools" from each scholar. The limitation is that these ordinary payments are not to "exceed ninepence a week"; and it is contained in Section 8 of the Elementary Education Act, 1870.

The Report of the Public Accounts Committee on this subject last year contained the following recommendation:—

"Finally, your Committee recommend that, so long as the law remains in its present form, a rule should be adopted that, after the

actual weekly equivalent for the quarterly fee has thus been ascertained, no school shall be eligible for grants at least two-thirds of whose scholars do not pay fees of 9*d.* or less per week. And the attendant circumstances should be considered before a grant is made to schools where any children pay more than 9*d.*, or any considerable number are said to pay exactly 9*d.* It need hardly be added that the facts obtained by the Department to guide them in applying this rule should in every case in which a grant is made be available for the Comptroller and Auditor General when he examines the payments."

10. The Education Department accepted this ruling as applicable to England and Wales.

11. To carry this into effect, the following sentence has been introduced in Article 3 of the Code (1892): " But if more than one-third of " the scholars pay fees exceeding ninepence a week the ' ordinary " payment ' will, as a rule, be considered to exceed ninepence a week."

12. The Comptroller and Auditor General in his Report has taken exception to the words " as a rule," because they would enable the Department, at its discretion, to set aside the provisions of the law, as now interpreted and defined, and to render the action of the Audit Department nugatory.

Your Committee understand that the Treasury agree with this contention, and hold that anything like a wide discretion makes it almost impossible for an audit to be properly conducted.

13. Mr. Kekewich, in the evidence which he gave before your Committee, stated that, in conceding that as many as one-third of the scholars might pay fees of more than 9*d.* the Public Accounts Committee had stretched the point even further than he liked. For his part, he would have been quite content with 25 per cent., and the addition of the words " as a rule "; he objected to a hard-and-fast rule, because of the hardship to a school that fails to satisfy the condition by a small fraction; he admitted that it is quite impossible to make a strict audit if the words " as a rule " are put in; but he contended that it is not desirable or necessary to have a strict audit, and that Parliament never intended that a strict audit should be applied, the definition being very vague throughout.

14. Thus the Treasury, the Education Department, and the Comptroller and Auditor General apparently are agreed that the words " as a rule," by introducing departmental discretion, defeat audit.

15. Last year's Report of the Public Accounts Committee contemplated a strict audit, as will be seen from the closing words of the passage quoted above.

And the intention of the Committee in stretching the point, so as to draw the line as high as one-third of the scholars, was to fix an absolute maximum.

Your Committee cannot recognize the introduction of the words " as a rule " as consistent with that intention, or with the necessity which, in their opinion, exists for a strict audit.

16. They are glad to learn from Mr. Kekewich that he sees no reason against the suggestion that schools, where fees above 9*d.* are charged, should be warned by circular not to approach too near the limit of 33 per cent., lest by passing it they should cease to be " elementary schools " within the definition, and should lose the grant.

17. If a further safeguard against this danger be needed, your Committee suggest that in the Code the 25 per cent. limit preferred by Mr. Kekewich, with the words " as a rule," should be laid down,

with the addition of a warning that in no case can a school be recognized as an " elementary school " where more than a third of the scholars pay fees exceeding 9*d.* a week.

My Lords hope that, in revising the Code for 1893, *their Lordships of the Committee of Council will adopt the suggestion of the Public Accounts Committee that the words " as a rule " should be omitted, and that the Code should be supplemented by a circular to School authorities* (*paragraph* 16) *warning them not to approach too near the limit of* 33 *per cent. As an alternative* (*paragraph* 17) *the Code might fix the limit at " 25 per cent. as a rule, but in no case to exceed* 33 *per cent."*

[The words " as a rule " were omitted from the Code of 1893.]

Fees for Books and School Material.

18. The Comptroller and Auditor General reports on a case where nearly all the scholars paid 9*d.* a week, and in addition 3*d.* a week each, to cover the expenses of books and other school material, the total average fee being thus 11·7*d.*

His view is that, while it is, on the one hand, admissible to exclude from the 9d. limit payments for purchases of books bought at irregular intervals from managers by scholars, as individual property; on the other hand, compulsory weekly or quarterly charges for the use of school books or material are clearly on the same footing as any other charges for instruction, and must be included among the " ordinary payments in respect of the instruction, from each scholar," which, under the Education Act of 1870, Section 8, are not to " exceed 9*d.* a week."

19. Your Committee share this view, and are glad to note that the Education Department have agreed to include such charges in the 9*d.* limit, in cases where the charge is imposed upon the scholar as a condition of admission to the school.

20. In amending the Code to carry this decision into effect, the words " as a rule " have, however, been inserted. They appear to be open to similar objections to those explained in preceding paragraphs of this Report. Your Committee were glad to be assured by Mr. Kekewich that he did not attach much importance to them, and that the suggestion that they should be omitted would be considered.

My Lords trust that, in the next edition of the Code, the words " as a rule " will be omitted in the part referring to this subject.

[The words " as a rule " were omitted from the Code of 1893.]

VOTE 9.—PUBLIC EDUCATION, SCOTLAND.

Unagreed Case.

21. In the case of the Musselburgh Grammar School, the Comptroller and Auditor General raised the question whether, while the same fees continue to be charged in all standards, a grant can be received from the money intended to be devoted towards relief from the payment of fees.

The Scotch Education Department thereupon drew up a case and submitted it to the Scotch Law Officers, who decided that the grant was warranted by the Articles of the Code, and that these articles were not *ultra vires.*

Mr. Craik admitted, on behalf of the Department, that on such occasions the case submitted should be a joint or agreed case.

Fees for Books and School Material.

27. There is on this point no difference between the law in the two countries . . .

Your Committee adhere to the view that, under the present law, deductions cannot be made from the school fees for any weekly or quarterly compulsory charges for books or materials, either in England or Scotland.

My Lords would be glad to learn that, upon further consideration, their Lordships of the Committee are prepared to agree to the view accepted for England as to the treatment of fees for books and school material for the purposes of Section 3 of the Elementary Education Act, 1870; and that Article 6 (d) of the Scotch Code will, next year, be amended accordingly.

[The Scotch Education Department accepted the ruling of the Committee. *See* Appropriation Account, 1891–92 (H.C. 66/1893), p. 380.]

CLASS V., VOTE 1.—DIPLOMATIC AND CONSULAR SERVICES.

Compassionate Gratuities.

28. It appears, from the Report of the Comptroller and Auditor General on this Vote, that two Compassionate Funds have been established, under the Superannuation Vote for 1888–89, and under the Vote for the Diplomatic Services, 1890–91. He points out that, to the extent covered by the funds in question, discretionary power, which it was the object of the Superannuation Act, 1887, to render unnecessary, has been revived in the case of the Treasury and in that of the Foreign Office.

The question arises whether the more regular course would not have been to ask Parliament for legislation amending the Superannuation Act, so as to remove any difficulty which may have existed in dealing with such cases as those which are now the subject of gratuities under these two Compassionate Funds.

29. Your Committee received some evidence on the subject of a gratuity of £85, granted out of the Diplomatic Service Compassionate Fund to a late Chancery Messenger and boatman at Her Majesty's Legation at Lisbon. The gratuity is granted for three years, and will be renewed, unless there are any special circumstances to cause the Secretary of State to exercise his discretion of not renewing it.

30. Your Committee are of opinion that cases of this kind should be met by legislation, rather than by the establishment of a discretionary compassionate fund of this character by means of the Estimates.

Paragraphs 28, 29, and 30, dealing with compassionate gratuities, concern their Lordships rather than the Secretary of State; but, as regards the subhead for that purpose upon the Diplomatic Vote, my Lords may here observe that the funds from which the First Lord and the Foreign Secretary are allowed, subject to certain limitations, to grant compassionate gratuities in cases of exceptional hardship not falling within the provisions of the Superannuation Acts were created for the following reasons.

The failure of repeated attempts had shown that it is not possible to define with sufficient precision in terms of an Act of Parliament the various circumstances in which a compassionate grant, as distinguished from a grant to which the recipient is entitled as of right, should be made. Either occasional cases of real hardship are excluded by the

necessary strictness of the statutory definitions; or a general discretion must be given to the Department, which, under the influence of Parliamentary pressure, has an inevitable tendency to become lax, and to include cases outside the original intention of Parliament.

To meet this difficulty the two funds in question were created, of which the governing principles are:—

(1) *That they should be limited to a moderate annual sum, £700 in the one case and £500 in the other.*

(2) *That a discretion in the application of the money should be acknowledged, but that the responsibility should be concentrated on an individual Minister.*

It is proposed that in future a list, with details, of each grant from the funds should be laid before Parliament at the commencement of each financial year.

*The principles on which these funds rest were explained by the Secretary to the Treasury in Committee on Civil Service Supplementary Estimates, on 19 March 1889, and met with the general approval of the House.**

General Consular Service.

Ex-officio Transactions: Consular Fees.

31. In the course of his visit of inspection to certain of the Mediterranean Stations during the later months of last year, the Comptroller and Auditor General noticed, among other matters, three important points upon which he communicated with the Foreign Office.

32. On the first two points, namely, that steps should be taken to show all *ex-officio* transactions of Consular Officers, either in the accounts, or by a statement appended to them,† and that the safeguard of the Stamp system should be applied to judicial as well as to Consular transactions, your Committee are glad to learn that the Foreign Office are willing to carry out his recommendations.

33. The third point urged by the Comptroller and Auditor General was the importance of a check which would enable the Foreign Office to obtain independent evidence of the stated balances of stamps at the various Vice-Consulates, with a view to preventing misappropriation of public money received by Consular Officers or their subordinates, and to prevent the loss which may arise through an omission to issue and cancel stamps equivalent in value to the money paid.

Your Committee are of opinion that it is desirable that some check should be introduced.‡ The mere adoption of the Stamp system is not a sufficient safeguard without such a check.

34. An illustration of this fact will be found in the evidence given to your Committee with respect to the case of the Vice-Consulate at Goletta, the port of Tunis, where the practice appears to have prevailed of receiving money from shipping masters without placing stamps upon the documents which were issued. They were sealed with the Consular Seal, which was sufficient for the purpose of the shipping masters. And it is apparent, from the evidence, that, although some inquiry had been made by the Consul, no sufficient check exists to secure the issue of the requisite stamps by the Vice-Consul or his subordinates. Your Committee trust that the whole subject will be carefully considered at the Foreign Office and the Treasury.

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* See also P.A.C. 1, 1908. 14, at p. 497. † See also P.A.C. 2, 1905, 8. at p. 472. ‡ See also 1914, 11, at p. 551.

My Lords cannot profess a sufficient knowledge of the details of this subject to warrant their making specific recommendations upon it at the present stage. They would, however, suggest, for the consideration of the Secretary of State, two methods in which it would seem possible to guard against frauds in connexion with consular fees:—

(1) *The documents requiring fee stamps should, so far as possible, take the shape of forms contained in books with counterfoils, the books, when exhausted, being sent to the Foreign Office with the Consular Accounts. The books would then show what forms had been used, and thereby indicate what amount of stamps should have been issued.*

(2) *Documents on which fees are chargeable should be invalid unless duly stamped, and this fact should be clearly announced on the face of them, and communicated to Foreign Powers.*

*I am to ask for the observations of the Secretary of State on these suggestions, adding that my Lords would also be glad to receive any further proposals to the same end which may have occurred to his Lordship.**

CLASS VII., VOTE 5.—PLEURO-PNEUMONIA (GRANT IN AID).

Date of Charge.

85. The Accounting Officer included in the expenditure for the year a sum of £45,000 which was not paid to the Cattle Pleuro-Pneumonia Account at the Bank of England within the year 1890–91.

The Comptroller and Auditor General has no option, under the Exchequer and Audit Act, and has been bound to report that this sum did not actually "come in course of payment" within the year, and that it must therefore be surrendered to the Exchequer.

86. At the same time, he has pointed out that the 2nd Section of the Contagious Diseases (Animals) Pleuro-Pneumonia Act, 1890, directed that the whole of the sums granted by Parliament for this service should be paid to the Cattle Pleuro-Pneumonia Account.

Mr. Hamilton, on behalf of the Treasury, has pressed this point further, urging in his evidence, and in a Memorandum printed in the Appendix, that to pay the money to the Exchequer would, for this reason, be irregular.

He has also argued that this grant was designedly made a Grant in Aid in order that what was not spent in one year might be available for the service of the subsequent year or years, and that thus the charge on the taxpayer might be an even charge.

He points out that a Grant in Aid differs from an ordinary grant, in that the Accounting Officer has only to produce proof that he has paid over the amount within the year to the person responsible for the service, instead of the proof required in the case of an ordinary grant of its actual expenditure within the year.

He submits that the obligation to surrender the £45,000 should, under the special circumstances, be dispensed with; as it is evident that there has been no intentional evasion of the Exchequer and Audit Act, but simply an oversight of the Accounting Officer, who failed to direct the transfer of the balance of the grant in 1890–91, viz., £45,000 from his Vote Account to the Pleuro-Pneumonia Account at the Bank of England by 31 March 1891.

* This question was considered by an inter-departmental committee, whose recommendations were approved by the Treasury. *See* T.M., 6 December 1893, appended to P.A.C. 1. 1894 (H.C. 34, p. 28).

37. Your Committee feel considerable difficulty in giving any sanction to a course which is admitted by Mr. Hamilton not to be in accordance with a strict construction of the Exchequer and Audit Act.

But they cannot resist the arguments summarized in the foregoing paragraph. There does not appear to be any reason to fear that a similar case will again occur, or that the course now adopted will be drawn into a precedent.

Recognizing the difference between this Grant in Aid, under a special Act of Parliament, and an ordinary grant, your Committee see no sufficient reason for insisting on the alternative, namely, the introduction of a Supplementary Estimate for £45,000 this year, to be followed by the surrender of the same amount from the Pleuro-Pneumonia Account to the Exchequer.

38. Under the exceptional circumstances of this particular case, and seeing that your Committee are satisfied that the actual payment from one Account to the other was omitted by oversight, the sum of £45,000 may be admitted as a charge against the year 1890–91.

My Lords feel confident that the oversight . . . which led to the difficulty, will not recur.

General Remark on Civil Services Appropriation Accounts.

Attention due to Points raised by Comptroller and Auditor General.

39. Your Committee received evidence on a number of points, in the Civil Service Accounts, on which they have not thought it necessary to report, further than by noticing them in this general paragraph. Your Committee trust that the remarks of the Comptroller and Auditor General in his Reports on these points will receive attention. If necessary, he will doubtless report upon them again in a future year.

My Lords have, in their Minutes of previous years, adverted to such points wherever any formal observations upon them appeared requisite, and now need only take note that the Committee desire a continuance of this practice.

Revenue Departments. Vote 8.—Post Office.

Double Salary to Clerks in Charge.

44. Explanations were offered to your Committee of a peculiar system which prevails in the Post Office for the payment of Provincial Clerks when in temporary charge of country post offices. The Comptroller and Auditor General has reported that, in certain cases which have been brought to his notice, the clerk in charge receives not only the full pay of the duty which he temporarily vacates, and for which a substitute is also paid; but, in addition, he receives the salary and allowances of the Postmaster for whom he is acting, as well as a subsistence allowance of 7*s.* 6*d.* a day; and he adds that he cannot think that it has been the intention of the House of Commons that one officer should receive the full salaries and emoluments of two posts at the same time, in addition to a special subsistence allowance.

The evidence given on behalf of the Treasury shows that they are opposed to the double-payment system, though they admit the existence of certain difficulties explained by Mr. Joyce. Mr. Hamilton suggested that the natural course would be to provide that, when a clerk is placed in charge of another post office, he should continue at his own rate of

salary, and be paid any reasonable expenses out of pocket to which he may be exposed by temporary removal from one place to another, including expenses in connexion with the bond which he has to provide.

Your Committee were assured by Mr. Joyce that the Post Office would be ready to consider these suggestions. And your Committee hope that some scheme may be arranged with the Treasury which will substitute for the present anomalous system a more defensible mode of payment.

My Lords would be glad to learn the results of the further consideration promised by Mr. Joyce as to the mode of payment in these cases. . . .

[The system was changed. *See* Appropriation Account 1892-93, H.C. 510/1894, p. 562.]

Imperial Defence Act, 1888 (Ports and Coaling Stations).

Cases submitted to Law Officers: Treasury to be Consulted.

55. At a later stage of the proceedings of your Committee, a Treasury Paper was handed in. In this letter it is stated that the question at issue " is one of financial importance, and my Lords cannot, " in such circumstances, be bound by the opinion of counsel given upon " a case not drawn in concurrence with them, and not communicated to " them beforehand. They do not think that the case states the points " fully, and they cannot, therefore, accept the opinion of the Law " Officers as conclusive."

Your Committee express no opinion on the legal question. They desire, however, to record their concurrence in the view of the Treasury, that a case which raised a technical and difficult financial question, and not merely a point of law, should have been submitted to them before it went to the Law Officers.

Consolidated Fund.

Management of the Debt. Payments to the Bank of England.

57. The Comptroller and Auditor General has called attention to the payments made to the Bank of England for the management of the Unredeemed Debt in respect of annuities payable by one Government Department to another. The amount thus paid is apparently about £11,000 a year, although the duties of the Bank in regard to such annuities are apparently confined to the simple transfer of the several amounts once a year from one account to another. . . .

In preparing the new arrangements with the Bank, confirmed by the Bank Act, 1892, the fact referred to by the Comptroller and Auditor General, that the duties of the Bank in regard to some portions of the Debt may be few and simple, was duly borne in mind.

Naval Defence Account.

Purpose I.—Provision of Money to meet Expenditure on Contract Vessels under the Naval Defence Act, 1889.

59. The attention of your Committee has been drawn to the fact that the expenditure in connexion with the Contract Vessels building under the Naval Defence Act, 1889 (Purpose I.), has, in the year

1890–91, been largely in excess of the annual sum specifically charged on the Consolidated Fund, and that a sum of £696,000 was borrowed under Section 2 (4) of the Act to meet, in part, the deficiency.

In addition to this sum, the Treasury allowed the unexpended balances upon Purposes II. and III. of the Act, brought forward from 1889–90, and amounting to £379,999 11*s.* 6*d.*, to be temporarily used for Purpose I.; and a further sum of £68,521 5*s.* 10*d.* was advanced from current Navy Balances.

The Comptroller and Auditor General has pointed out that these temporary advances were not strictly regular according to the terms of the Naval Defence Act. But the employment of available balances in such a case is held by the Treasury to be the best course in the interests of economy; and, under the circumstances, it appears to your Committee to have been justified.

T.M. 5 November 1892.—*Each of the three statutory purposes defined by the Naval Defence Act,* 1889, *has its own fund assigned to it by the Act, and savings on one fund could not be permanently used to supplement another fund without fresh legislation. Just, however, as it is not considered necessary to keep a distinct cash balance continuously in hand for each civil Vote, but for the sake of economizing balances the demands for any one vote may be temporarily met out of a common cash balance, provided that the parliamentary provision for that Vote be not exceeded, so it has been held that the Naval Defence Act does not forbid the temporary use of previous years' savings on, say, Purpose II., Dockyard Shipbuilding, and Purpose III., Armaments of Dockyard Ships, for Purpose I., Contract Ships and Armaments. Under such an arrangement resort to borrowing for the last-mentioned purpose, when the cash balances of the other purposes are lying idle, is avoided; but means, of course, have to be taken to ensure that savings are forthcoming for the purposes to which they belong whenever they are wanted.*

Similarly, ordinary cash balances may be temporarily used for Naval Defence Act purposes. Indeed at the moment when payments are made it is difficult, if not impossible, to distinguish those on ordinary account from those on extraordinary account. But every precaution is taken to make the issues out of the Naval Defence Account correspond as closely as possible with the expenditure incurred for that purpose so far as is ascertainable.

My Lords note that the Committee do not take exception to these proceedings of the Treasury.

Dockyard Expense and Manufacturing Accounts.

Undue Depreciation of Stores Issued for Works at Malta.

62. Your Committee have had before them a case in which certain stores issued from Chatham Dockyard, for use in the Works Department at Malta, were reduced in value in a way that pointed rather to an undue depreciation to meet a particular exigency.

The Admiralty have furnished explanations which show that the circumstances in this case were exceptional; and they have expressed concurrence in the Comptroller and Auditor General's opinion that the valuation of stores should not be adjusted to meet the exigencies of existing estimates for work. It is contended, however, that occasionally valuations must be fixed in view of the necessity for using up old and obsolete stock.

While admitting the reasonableness of this contention, your Committee think that the circumstances attending reductions in value of this kind require to be carefully watched.

As my Lords understand the case, certain old iron and timber stores cut up and partly used for works at Malta were valued for charge against the works at the price of the materials actually required for the works, instead of at the original book values of the stores. This course seems justifiable on the assumption that it would not have been more economical to have sold the old stores and bought new materials for the works.

Loss of Timber. Failure to Fix Responsibility.

63. The Comptroller and Auditor General in his Report notices a loss of 2,570 feet of deal of the value of £30 14*s.* 8*d.*, from the Saw Mills at Portsmouth, for which the Admiralty have not been able to account satisfactorily; and he adds that this loss should be written off only with Treasury sanction.

The Admiralty consider that it is not necessary to refer to the Treasury, as it was not possible to fix responsibility on any officer; but the Comptroller and Auditor General maintains that "there must have been responsibility somewhere," and remains of opinion that the loss is not yet validly discharged. It appears to your Committee that the inability to bring the loss home to an individual should not necessarily relieve the Admiralty of the necessity of obtaining Treasury sanction in a case of this kind.

The Treasury will doubtless consider whether the rule should not be amended so as to meet cases of the kind in question.

The reason given for not asking Treasury sanction for the write-off of this loss is that no personal responsibility for it can be established. My Lords do not think this a sufficient reason. All the timber in the Saw Mills ought to be in the charge of some officer who is responsible for it and is debitable with losses. A loss may occur from fire, dry-rot, or other natural causes, for which no one can be blamed. Such losses when written off should be reported in the Store Account, if not, as has been suggested, in periodical schedules to the Treasury. They may show faults of system, but do not involve questions of individual pecuniary responsibility, assuming that they arise from causes beyond the individual control of the officer in charge. But where a loss occurs either through theft or through an inexplicable mistake or omission in accounting, it should be submitted to the Treasury before being written off. The fact that after full inquiry no one can be held culpably *responsible, is a reason for the Treasury's consenting to the write-off, not for omitting to submit the case to the Treasury.*

The War Department frequently submits losses for write-off, the blame for which cannot be brought home to any particular person.

SECOND REPORT, 1893. H.C. 255.

Treasury Minute, 24 November 1893.

ARMY APPROPRIATION ACCOUNT.

VOTE 2.—SUPPLY OF MEDICINES TO THE ARMY.

4. The Comptroller and Auditor General called attention in 1890 to the system of obtaining Medical Supplies for the Army, and pointed

out that, while the Navy obtained its Medical Supplies from various contractors under a system of limited competition, the Army was exclusively supplied by two firms for England and the Colonies, and for Ireland by one firm. After inquiry, the Public Accounts Committee of 1890 felt assured that the experience of the Navy and other branches of the public service in regard to the purchase of Medical Supplies would receive the attention of the War Office.

5. Their expectation has been fulfilled, and your Committee are able to report that a system of limited competition has been adopted by the War Office, as regards the supply of Medicines for the Army in England and the Colonies. A limited number of firms of high repute were invited to tender for a contract of supplies for a period of three years, and the lowest tender was accepted. The terms of the existing contract, which has now been in operation for about two years, have effected a saving in cost of about 10 per cent.; and your Committee have been assured that this economy has been secured without any falling off in the quality of the supplies or the efficiency of their distribution. The Director General of the Army Medical Department is of opinion that there would be no objection to a limited extension of the area of competition, when the present contract expires and a fresh contract is called for.

6. No change has as yet been made in the arrangements for the supply of Medicines, &c. in Ireland, but the Director General of the Medical Department stated to your Committee that, upon the expiry of the present contract, it might be possible to throw open the service to competition among a limited number of Irish firms.

The Secretary of State will note the suggestion of the Public Accounts Committee that, before the expiration of existing contracts next year, it should be considered whether an extension of the system of competing tenders should not be tried for England and the Colonies, and whether the system of competition might not be applied to Ireland.

VOTE 9.—WARLIKE AND OTHER STORES.

Inspection and Proof of Stores.

8. It was suggested last year by the Comptroller and Auditor General that the balance sheets of the Inspection Department would acquire additional value if they were appended to the Appropriation Account, by furnishing Parliament with information which is at present wanting of the actual cost of that service; and the Accountant General of the Army undertook, before the Public Accounts Committee, that the suggestion should be carefully considered. The War Office, however, decided not to adopt the suggestion, on the ground that, as no manufactures are carried on in the Inspection Department, its accounts do not appear to be included in the Army and Navy Audit Act, 1889.

9. Upon the technical accuracy of this interpretation of the Act your Committee offer no opinion; but having regard to close analogies between the Inspection Department and the Manufacturing Establishments of the Army, a similar treatment of their accounts would seem to be consonant with the spirit of the Audit Act, 1889. And as your Committee have learnt from Mr. Knox that the addition of the balance sheets of the Inspection Department to the Appropriation Account would involve but slight cost or labour, they hope that the War Office may be willing on further consideration to act in accordance with the Comptroller and Auditor General's suggestion.

*The Treasury concur with the Committee in hoping that the balance sheets of the Inspection Department may be appended to the Army Appropriation Account, if no serious cost or labour be involved.**

Supply of Ordnance Stores to Colonies and Contractors.

11. Although the general principle on which the business of the Ordnance Factories is conducted is direct payment by advances on the part of their customers for the full cost of the articles supplied to them, a modification was introduced, for reasons of administrative convenience, into the form of the Production Voucher for 1890–91, whereby Vote 9 was made primarily responsible for charges in respect of services performed for the Colonies and Contractors, and had to bear the loss in cases where the actual cost of the article exceeded the Estimate of Cost furnished to the Colony or Contractor. The Treasury assented to this exceptional treatment of certain customers upon the understanding that the Orders should be small, and the Charges all-inclusive; and the Public Accounts Committee of 1892 received assurances that care would be taken to protect Army Funds from all possible loss arising from differences between the original estimated cost and the cost finally claimed by the Factories from Army Funds.

12. Nevertheless, the Comptroller and Auditor General has met with cases in the Account for 1891–92 where loss has fallen on Vote 9, owing to the insufficiency of original Estimates of Cost. The error in these cases has been ascribed by the Accountant General of the Army to causes which, in his belief, are purely transitory, and he is confident that such miscalculations will entirely cease. He also adheres to an opinion expressed last year, that profit rather than loss will accrue to Army Funds from this mode of dealing with charges for supplies to the Colonies and Contractors. Your Committee trust that the expectations of the Accountant General may be shown to be well founded by further experience and watching of the system, and that the War Office will be careful not to extend it to large orders.

It will be observed that the Committee do not oppose a further trial of the system of making small supplies, through Vote 9, to Colonies and Contractors, at prices fixed beforehand on Estimates, on the understanding that the results are carefully watched. My Lords concur.

VOTE 10.—WORKS.

Classification of Repairs costing more than £1,000.

18. A question was raised by the Comptroller and Auditor General as to the propriety of including a charge of £1,061 8*s*. 11*d*. for repairs and restoration of Carlisle Castle, after a fire, under Part III., Repairs and Maintenance, instead of taking it to Part I., New Works, where charges for repairs exceeding £1,000 had usually been shown. The War Office, however, held to the view that, as the works at Carlisle Castle were in no sense "New Works," but strictly "Repairs and Maintenance," the charge properly belonged to Part III., and they regarded the character of the work as a sounder basis of classification in all such cases than its cost. But when reference was made to the Treasury, that Department declined to sanction the classification desired by the War Office. The Treasury were of opinion that, in the interests both of Parliamentary control and continuity of record, charges for

* See also P.A.C. 2. 1895. 21-8, at p. 856.

Repairs exceeding £1,000* should continue to be placed in Part I.; and it has been agreed between the two Departments that such shall be the established practice, the headings of the account being so altered as to be consistent with the practice. . . .

Financial Regulations.

16. . . . Your Committee, therefore, hope that no similar irregularity will recur. But, as it has been brought to their knowledge that the Memorandum which guided the action of the War Office on this point was prepared without concert with the Treasury, your Committee would suggest that consultation between the Accounting Officers of the Treasury and the War Office, in the framing of rules and instructions which closely concern both Departments, might avert irregularities and diminish controversial correspondence between them.

In discussing the first of the two items here referred to, viz., the expenditure of £1,477 on a store house at Woolwich Arsenal, the Committee advert to the importance of the financial regulations of the War Department being prepared in concert with the Treasury, a precaution the adoption of which would, in this particular case, have prevented the misapprehension out of which the irregular expenditure arose. My Lords will be happy to afford the assistance of the Treasury Officers of Accounts for this purpose, whenever the Secretary of State may desire it.

ORDNANCE FACTORIES APPROPRIATION ACCOUNT.

Credit of Semi-Manufactures to Appropriations in Aid.

22. The question . . . whether materials on which no labour has been expended can properly be deemed to be semi-manufactures on their transfer from store to factory, likewise demands careful consideration. The evidence received by your Committee does not sustain the conclusion that materials thus transferred should never be treated for purposes of account as semi-manufactures. Such a rigid restriction might, indeed, impose practical difficulties on the working of the Ordnance Factories. But the present case forcibly illustrates the use to which the practice might be turned for financing purposes in the absence of adequate safeguards, especially when it is contended by the Director General of Ordnance Factories that this transaction would have been absolutely regular if it had taken place on 31 March 1892 instead of on an early day in April. Although, as previously stated, the transfer of these materials was not intended to affect the Appropriation Account for the year 1891–92, it did in fact at once convert a net deficit of £9,501 18*s.* 8*d.* into an apparent surplus of £2,892 6*s.* 5*d.*

Your Committee are, therefore, of opinion that transfers of materials from Store to Factory should be subject to such regulations as will ensure their specific appropriation to particular orders in actual execution by the Factory, and facilitate their identification by the Comptroller and Auditor General in his audit of the Ordnance Factories Accounts. Your Committee concur in the suggestion made by Mr. Ryder, that the end in view might be conveniently attained by the appointment of an Inter-departmental Committee, embracing representatives of the Treasury, the War Office, and the Admiralty, to consider and report on the

* The limit for Part I. was raised to £2,000 in 1902-3 for Army, and in 1908-4 for Navy Works.

question of providing safeguards against a possible use of transfers of materials for mere financing purposes.

Their Lordships are prepared to join with the War Department, and if desired with the Admiralty, and perhaps the Audit Office also, in an inquiry as to the sufficiency of the present safeguards upon the transfer of materials from Store to Factory for debit to "Orders," to ensure their being made to meet proper requirements for the fulfilment of orders given by the customers charged, and not merely for financing purposes.

Materials in the Director General's charge are treated as common stock, and cannot in that shape be finally charged to customers; but as soon as materials are technically transferred from Store to Factory for future use in manufacture—and such transfers may be simply book transactions involving no physical movement of the materials—they are regarded as semi-manufactures, and are debited to particular customers, as final charges, with the result that the appropriations in aid of the Ordnance Factories Vote are automatically increased. Herein lies the possibility of making such transfers serve for the adjustment of the Vote account.

As stated by the Accountant General of the Army, Q. 716, the present practice is that, whenever stock is found to exceed certain limits, a transfer of the excess is made to semi-manufactures, whether or not labour has been expended on the materials by the factory; and, as explained by the Director General, Q. 1012–18, whether or not they can be ear-marked to particular orders—it being assumed that the excess must be due to orders in hand. If materials cannot be ear-marked to particular orders, doubt seems thrown on the accuracy of their allocation to particular customers. Moreover, the excess of stock may occasionally have been caused by very large purchases, surpassing the amount of orders actually in hand, and even be due to error of judgment in buying. Therefore the mere existence of an excess can hardly be held to justify a transfer. Again, the orders in hand may be for large quantities, intended to be supplied gradually in the course of one year or more, as funds become available for paying for them. In such a case it might be unfair to the customer to bring the whole of the requisite materials into charge against him at once, he having no voice in the matter.

What the limitations to such transfers should be are not altogether obvious, and my Lords consider that the subject is well deserving of careful investigation, if the Secretary of State still holds that transfers of this kind at the close of the year cannot be dispensed with.

STORE ACCOUNTS OF THE ARMY.

Losses of Stores in South Africa.

With regard to the sum of £456 0*s*. 2*d*., reported by the War Office to the Treasury as representing the value of a net deficiency of Stores in Natal, the Comptroller and Auditor General has pointed out that this sum is the difference between £7,837 8*s*. 10*d*. (the value of the gross deficiency of Stores) and £7,381 8*s*. 8*d*. (the value of the gross surpluses); and that, in accordance with the terms of a Treasury Minute of 5 January 1892, the sanction of the Treasury should have been sought by the War Office for the writing off of the total amount of deficiencies, viz., £7,837 8*s*. 10*d*., unless the Stores found to be surplus were of a similar nature and value to those which were deficient.

The opinion of the Comptroller and Auditor General on this point has been supported by Mr. Ryder, on behalf of the Treasury; and your Committee concur with them in holding that at least where no relation, as to kind and value, can be established between a surplus and a deficiency, the gross figures both of surplus and deficiency should be submitted to the Treasury. Indeed, they see no difficulty in the submission of the gross figures in all cases by the War Office to the Treasury.

Their Lordships hope that, as suggested by the Committee, whenever a net deficiency of stores is submitted for write-off, the gross surpluses and gross deficiencies of which it is the difference, may be stated at the same time, in sufficient detail to enable this Department to judge of the propriety of setting off one against the other.

Barracks Act, 1890.

37. The Comptroller and Auditor General has found difficulties, in the present as in the previous account of this Service, in distinguishing between the expenditure chargeable to the Barracks Reconstruction Fund and the analogous expenditure provided for by Army Votes; and adduces, as an illustration of his difficulties, the case of a payment of £400 paid to a contractor as compensation for loss on a contract carried out and completed at the charge of the Army Works Vote in the year 1889, but included under Head II. of the Barracks Act Account. This payment is admitted by the Accountant General of the Army to have been erroneously included in the Barracks Act Account, because the work was completed as well as commenced out of the Army Works Vote; but he claims for the War Office the widest latitude of discretion in assigning charges for continuing services of an analogous or even identical character, either to Army Votes or the Barracks Loan, and sees no way of regulating the assignment of such expenditure to one fund or the other by any principle of classification.

38. Difficulties of a like kind have been met with by the Comptroller and Auditor General in the arbitrary distribution of similar charges between the Barracks Loan and the Imperial Defence Loan; and the practice has been defended by the Accountant General of the Army on the same considerations as those put forward in justification of interchangeability of charges for similar services between Army Votes and the Barracks Act Loan.

39. These difficulties, which have been the subject of notice by the Treasury, as well as by the Comptroller and Auditor General, are obviously due to the fact that Loan accounts are open for expenditure, on an exceptional scale, for services which are in general borne by Army Votes. Your Committee are not prepared to say that, under such conditions, the inconveniences arising for purposes of account can be wholly removed, but they concur with the Treasury in the opinion that the submission to that Department by the War Office of precise and detailed programmes of the works contemplated at the charge of each Loan, and the restriction of Loan charges to those programmes, unless special authority has been obtained from the Treasury for deviating from them, would tend to mitigate present difficulties. In the judgment of your Committee, the allocation of charges between Votes and Loans ought not to be left to the discretion of the spending department, but be determined by rule or by programme, adherence to which can be checked by the Comptroller and Auditor General.

The Committee agree with the Treasury that the only way of avoiding hopeless confusion between charges on Army Votes and the different Military Loans, respectively, is to frame careful programmes of charge beforehand, with Treasury concurrence, and adhere to them strictly. My Lords may refer to the remarks on this point made in their letter of 27 May last, respecting the acquisition of a training ground near Fermoy.

NAVY APPROPRIATION ACCOUNT.

VOTE 8.—SECTION I.

Overtime at Dockyards.

47. Although overtime work is prohibited by Admiralty regulations both in Home and Foreign Dockyards, except in cases of absolute necessity, the Comptroller and Auditor General observed, in his examination of the accounts of Malta Dockyard, that overtime had been habitually worked there, and that in several instances, the extra hours were very prolonged. When apprised of these circumstances by the Comptroller and Auditor General, the Admiralty brought them to the notice of the Admiral Superintendent of Malta Dockyard. That officer thereupon issued a memorandum, recommending the employment of extra men, rather than recourse to extra time, wherever the class of labour required could be supplemented from outside. He further directed that, when the employment of men for extra hours was absolutely necessary, care should be taken that " no man worked more " than 14 hours a day, except under extreme circumstances, and with " his approval first obtained." It is believed by the Admiralty that the condition of the Admiral Superintendent's express sanction thus attached to all cases where men are employed more than 14 hours a day will operate as an effective check upon abuse of the permission to work overtime when absolutely necessary.

48. Your Committee are fully aware that the exigencies of Naval Service render it impossible to preclude overtime work altogether, and occasions, doubtless, arise when even the employment of men for very long hours may be indispensable, especially in Foreign Yards where there are no means of supplementing certain kinds of skilled labour from outside; but this unavoidable necessity of occasional resort to a practice which may easily be abused calls not only for strict rules, but also for special vigilance on the part of superintending officers of Dockyards to ensure observance of rules.

49. Your Committee have been informed that the Admiralty are preparing fresh regulations for all Dockyards, and that the question of overtime work will not be overlooked.

*Their Lordships would inquire whether the fresh regulations, dealing with overtime amongst other subjects, have yet been prepared.**

VOTE 9.—SUBHEAD E.E.

Credit shown under a Debit Subhead.

51. The unusual feature presented by this Subhead, of a credit or receipt entry under an expenditure column, has been explained to your Committee. Prior to the year 1891–92, stores had been issued from Vote 8 to Vote 9 for the provision of floating magazines, the former

* See also P.A.C. 2. 1894. 55, at p. 329.

Vote being credited, and the latter Vote debited, with their value. The whole of those stores were not required to complete the work for which they had been purchased by Vote 9 from Vote 8; and on the completion of that work the unused stores were returned by the former to the latter Vote, Vote 8 being debited, and Vote 9 credited, with their value in the Account for 1891–92. In that year there were charges against Subhead E.E. amounting to £158 1*s.* 5*d.*; but this sum was exceeded by the value of the returned stores, the Appropriation Account was so prepared by the Admiralty as to show only the net credit, and remove the debits of the year from sight.

Hence, as pointed out by the Comptroller and Auditor General, expenditure on floating magazines out of Vote 9 during 1891–92 has not been shown; and the Appropriation Account fails to that extent to be an accurate record of cash expenditure within the financial year, either as regards Vote 8 or Vote 9. Moreover, the omission to regard the original transfer of stores from Vote 8 to Vote 9 as a final charge on the latter Vote, and the treatment of the charge as part of a continuous service, are contrary to the intention and purpose of Appropriation Accounts, as complete and conclusive records of the transactions of each financial year.

52. The irregularity of this transaction has been acknowledged by the Accountant General of the Navy, and the Treasury fully recognize that the value of Appropriation Accounts might be seriously impaired by such departures from regular practice. Your Committee, therefore, entertain no doubt that care will be taken to guard against the recurrence of similar irregularities in future.

The question here raised has an important bearing on the practice of one Naval Vote selling stores to another for money, and my Lords may be pardoned for discussing it in a certain degree of detail. The justification for charging the Vote that receives the stores with their value, and crediting that value to a Debit Subhead of the Vote that supplies the stores, is that the latter Vote is assumed to need the money within the year to which it is appropriated, for replacing the stores, or else to have spent the money for the immediate purpose of the transfer, and to require its payment within the year. To withhold payment in such circumstances would upset the estimate of the Selling Vote, and would burthen it with part of the cost of a service for which Parliament had, at least implicitly, provided in the Buying Vote. But if this assumption be groundless, and the one Vote does not really need to replace, or recover the value of, the stores which the other Vote takes from it, either no cash payment at all ought to be made for the stores, and the transaction should be simply recorded by note on the accounts, or the cash payment should be credited to Appropriations in Aid, not to a Debit Subhead.

It will be seen, therefore, that the conditions justifying a cash payment by the Buying Vote to a Debit Subhead of the Selling Vote can only occur when the payment, and any requisite correction of it, take place in one and the same year as the original transfer of the stores. My Lords will use the particular case now in point as an illustration.

Vote 9 (Armaments) bought goods from Vote 8 II. (Dockyard Materials) in 1889–90 and 1890–91, and paid full value for them, with a view to their replacement in the years of transfer. In 1891–92, the year following the completion of the work for which the stores had been wanted, certain of them, which Vote 9 was found not to require, were returned to Vote 8 II., and the latter Vote was made to repay their value to Vote 9.

But Vote 9 for 1891–92 had no title to the use of this money in addition to the provision made for it by Parliament, because it did not require to replace the stores, and no money had been spent out of it in their original purchase. If the return of the stores to Vote 8 II. saved the purchase of other stores out of that Vote it was justifiable to charge Vote 8 II. with the value; but in that case the payment should have been credited to Appropriations in Aid of Vote 9, so as not to supplement the total Parliamentary provision.

Their Lordships consider that the value of stores returned *from one Vote to another in a year subsequent to that of their supply, should be carried to the credit of the Vote returning them as an Appropriation in Aid. Further, as it is understood that there would be great difficulty in ascertaining the year in which the returned stores had been supplied, when the service extends over more than one year, and that the amount affected would be small, their Lordships are of opinion that the value of all stores* returned *by one Vote to another, without regard to the year of supply, should be treated as an Appropriation in Aid.*

My Lords agree with the argument in the Comptroller and Auditor General's Letter of 28 March last, which attributes the error of the Admiralty to a failure to appreciate the effect of the appropriation of Votes to the exclusive service of each particular year. (Page 125 of Appendix to Second Report.)

The Committee refer to what may be called a subsidiary error in the present case, viz., the crediting Subhead E.E. of Vote 9 with a net receipt only, so as to exclude a certain amount of expenditure from the accounts. This mistake, however, might have been avoided by recording the gross expenditure and receipts in an inner column, if the credit had been right in principle.

THIRD REPORT, 1893. H.C. 325.

Treasury Minute, 6 December 1893.

Civil Services Appropriation Accounts.

Civil Servants : Retirement at 65.

1. The attention of your Committee has been directed by the Comptroller and Auditor General, in his General Report on these accounts, to important questions respecting the application of the Order in Council of 15 August 1890.

2. Like a previous Order in Council, dated 21 March 1890, the Order in Council of 15 August 1890 was issued to give effect to recommendations of the Ridley Commission. The former Order in Council fixed the constitution of the Second Division of the Civil Service; and the later one regulated the conditions of employment for "all permanent officers in the Civil Service drawing salaries, or placed "on scales of salary, in excess of those of the Second Division."

By the 10th clause of this Order in Council [*now the 15th clause of the Civil Service Consolidation Order in Council of 10 January 1910*], retirement from the public service is made compulsory on every officer to whom it applies on attaining 65 years of age. But in special cases the Treasury may, at the instance of a department, extend an officer's employment for a further period, in no case exceeding five years, on being satisfied that such officer's retirement would be detrimental to the interest of the public service.

3. With reference to this clause, the Treasury gave notice to the accounting officers of all departments for which provision is made in the Annual Estimates submitted to Parliament, that it would be the duty of the Comptroller and Auditor General to call attention to any payment of salary in respect of service subsequent to 1 January 1892, made to a permanent officer of the Civil Service above the age of 65, unless his continued employment beyond that date had been specially sanctioned by the Treasury; and to fulfil the duty thus devolved upon him the Comptroller and Auditor General requested the accounting officers to furnish him with certified statements of the names and ages of all officers whose salaries were paid out of the Votes for which they were responsible, or charged in the accounts rendered to his department.

4. The statements required were furnished to the Comptroller and Auditor General, except in the following instances:—

Class	II.	Vote	1.—House of Lords.
,,	,,	,,	2.—House of Commons.
,,	III.	,,	8.—The Supreme Court of Judicature (England).
,,	,,	,,	11.—The Courts of Session and Justiciary (Scotland).
,,	,,	,,	15.—The Crown Solicitors and Sessional Crown Solicitors (Ireland).
,,	,,	,,	16.—The Supreme Court of Judicature (Ireland).
,,	,,	,,	18.—The Dublin Metropolitan Police Magistrates.
,,	V.	,,	1.—The Diplomatic and Consular Services.

In these cases the departments declined to send in returns of ages upon the ground that the Order in Council did not apply to them.

5. Hence it became the duty of your Committee to inquire into the reasons for which these departments considered themselves to be exempt from the operation of an Order in Council, expressly declared to be applicable to all permanent Civil Servants whose salaries exceed those of the Second Division.

6. It should, however, be premised, before examination of the reasons severally advanced by the departments, that no authoritative definition of what constitutes a permanent Civil Servant is known to the Treasury. A partial definition of the term may, indeed, be extracted from the provisions of the Superannuation Act, 1859; and, as concerned with them, a permanent Civil Servant would appear to be an officer appointed by the Crown, or holding a certificate from the Civil Service Commissioners, giving his whole time to the public service, remunerated out of the Consolidated Fund, or out of moneys voted by Parliament, and liable to retirement or removal; therefore holding only at pleasure, and not during good behaviour. But the conditions of service imposed by the Superannuation Act, 1859, relate only to qualifications for pensions. They do not regulate or define the whole status of a permanent Civil Servant.

7. It should, further, be noted that, although it is incumbent on the Treasury, as the office primarily responsible for the regulation and conduct of the Civil Service, to issue directions giving administrative effect to Statutes and Orders in Council affecting Civil Servants, the Treasury does not claim to be a final and conclusive interpreter of the law which it puts in action.

I.—Houses of Parliament.

8. The grounds for holding the Order in Council to be inapplicable to the offices of the House of Lords were stated by the Clerk of the

Parliaments, to whom their Lordships gave leave to appear as a witness before your Committee. As his evidence shows, the House of Lords claims to possess complete and independent jurisdiction over its own officers, in respect of their appointment, pay, pensions, and duties, under the Act 5 Geo. 4, c. 82, intituled " An Act for better regulating the Office of Clerk of the Parliaments.

Under this Statute, the Clerk of Parliaments is appointed by the Crown, and is removable upon an address from the House of Lords. The other Clerks at the Table are appointed by the Lord Chancellor, or the Speaker of the House of Lords for the time being, and are only removable by order of the House; and all other clerks attached to the office of the Clerk of the Parliaments are appointed by that officer, and removable at pleasure by him.

9. The salaries of these officers, which were formerly paid out of fees accruing to the House of Lords, are now borne on annual Votes of Parliament; and it is stated that this charge upon the Estimates was accepted by the Treasury in consideration of surrender to the Exchequer by the House of Lords of all its fees exceeding the amount required for payment of pensions.

The pensions of officers of the House of Lords, which practically follow the general scale of the Civil Service, are paid entirely out of funds derived from fees.

It must be added that it is the practice that officers in the office of the Clerk of the Parliaments should obtain Civil Service certificates; but Mr. Graham explained to your Committee that this is a matter entirely within his own discretion, and that he, or his successors, are free to alter the practice at any time.

10. As regards the officers of the House of Commons, it has been contended that the Order in Council of 15 August 1890 does not apply to them, because it is explicitly based on the Report of the Ridley Commission, and that as the Commission did not inquire into these offices, they were presumedly outside the scope of its inquiry.

11. It will be seen also, on reference to the evidence of Sir Reginald Palgrave, that freedom from Treasury control is claimed upon the ground that entire power as to granting and regulating the salaries, emoluments, and retiring allowances of officers of the House of Commons is vested in a permanent commission created by the Act 52 Geo. 8, c. 11., and composed of the Speaker of the House of Commons, the Secretary or Secretaries of State, the Chancellor of the Exchequer, the Master of the Rolls, and the Attorney and Solicitor General, for the time being; they and each of them being also Members of the House of Commons.

12. As to the tenure of appointments, the Clerk of the House of Commons is appointed by Letters Patent under the Great Seal for the term of his natural life, and is removable only upon address from both Houses of Parliament. The Clerk Assistants are appointed by Her Majesty's Warrant under Her Royal Sign Manual, and are removable only by an address of the House of Commons. The appointment, suspension, and removal of other clerks in the Department of the Clerk of the House of Commons are vested in that officer by the Act 52 Geo. 8, c. 11. The Serjeant-at-Arms is appointed by Letters Patent, and is removable only by Address from both Houses of Parliament. And he also is empowered, by the Act 52 Geo. 3, c. 11, to appoint and remove officers under him.

Sir Reginald Palgrave further informed your Committee that the practice which has obtained, since 1856, for the clerks in his department to enter the Service through examination, and thus obtain Civil Service Certificates, was originally a voluntary arrangement made by Sir Denis Le Marchant, as Clerk of the House of Commons, and that its continuance is dependent on the will and discretion ot each successive holder of that office.

13. The salaries and pensions of the officers of the House of Commons are fixed and regulated, as already stated, by the Commissioners appointed under the Act 52 Geo. 3, c. 11. Both salaries and pensions are wholly paid out of moneys voted by Parliament, the total amount of fees received by the House of Commons being handed over to the Exchequer.*

14. Thus it appears, from the statements made to your Committee by the Clerk of the Parliaments and the Clerk of the House of Commons, that, although there are differences of detail in the modes by which the offices of the two Houses of Parliament are respectively regulated, provision is, in part, made for the administration of both Houses by statutes, and that there are officers in each House who hold their appointments by tenures which are incompatible with a compulsory application to them of the 10th clause of the Order in Council of 15 August 1890.

15. Whether existing arrangements as to the administration of the offices of the Houses of Parliament are well suited to present times, or require amendment, is a large question, on which your Committee would hardly be justified in offering an opinion. It is clearly not desirable that so important a subject, which was left untouched even by the Ridley Commission, should be dealt with by your Committee as a detail in their survey of the Reports of the Comptroller and Auditor General on Appropriation Accounts. Neither does it seem to be necessary that they should do so in connexion with the point raised by the Comptroller and Auditor General.

16. It is apparently within the power of the House of Lords Offices Committee, should they think proper, to apply the rule of retirement at the age of 65 to their own officers; and a like power would seem to be vested in the statutory Commissioners of the House of Commons, among whom the Chancellor of the Exchequer must, practically, represent the Treasury. Having regard, therefore, to the fact that, both as to the receipt of Civil Service certificates, and the scale on which pensions are granted, conformity with the general conditions of employment in the Civil Service has already been introduced into the offices of the Houses of Parliament, your Committee entertain the hope that the authorities charged with the regulation of those offices will consider the question how far they can be assimilated to other public departments by adoption of the principle of compulsory retirement as laid down in the 10th clause of the Order in Council of 15 August 1890.

To the Clerk of the Parliaments. . . .

I am to suggest that the attention of the authorities charged with the regulation of the Offices of the House of Lords should be specially drawn to the observations of the Committee of Public Accounts contained in paragraph 16 of the Report.

To the Speaker, House of Commons . . . .

My Lords do not doubt that the observations of the Committee in paragraph 16 of the Report will receive the most careful consideration of the Commissioners for regulating the offices of the House of Commons.

* Appropriated in aid of House of Commons Vote from 1896-7.

II.—*Legal Departments.*

17. As regards the legal establishments which omitted to furnish Age Returns of their officers to the Comptroller and Auditor General, your Committee have learnt that the Treasury had no reason to believe that it was the intention of Her Majesty in Council, when framing the Order in Council, to draw any distinction between the Civil Service generally and the branch of it attached to the Supreme Court of Judicature. But, in the opinion of the Lord Chancellor of England, the Order in Council does not apply (for reasons stated in correspondence between his Lordship and the Treasury) to officers of the administrative departments of the Supreme Court of Judicature. Not prepared to question this opinion, the Treasury invited the Lord Chancellor to express his views as to whether, to what extent, and by what means (legislative or other) the disciplinary regulations of the Order in Council could be extended to the several departments of the Court; and the invitation was accompanied by an assurance that, if the arrangements to be made should require legislation, Her Majesty's Government would afford every facility in their power in the conduct of the necessary measure through Parliament.

18. The Lord Chancellor replied that, as then advised, he saw no reason why the legal establishments should not be regulated on principles similar to those prevailing in other administrative departments of the State, and undertook to communicate at once with the other legal authorities whose departments might be concerned in the new regulations, as well as with the officers whose position would be affected.

Some information respecting the progress of those communications has been supplied to your Committee by Mr. Muir Mackenzie, and his evidence points to the conclusion that fresh legislation will probably be found to be necessary to bring officers of the legal establishments under the operation of rules analogous to those of the Order in Council.

Meanwhile, seeing that the Lord Chancellor and the Treasury are agreed upon the expediency of introducing as far as practicable into the legal establishments conditions of employment similar to those imposed on other administrative offices, your Committee feel assured that these high and responsible authorities will prosecute their consideration of the question with a full sense of the importance of bringing it to a definite and early settlement.

19. Correspondence has, likewise, been submitted to your Committee respecting the applicability of the Order in Council of 15 August 1890 to the administrative departments of the Courts of Session and Justiciary (Scotland), and of the Supreme Court of Judicature (Ireland). But your Committee learn from Sir Reginald Welby that the consideration of the question whether the Order in Council shall apply to the legal establishments in Scotland and Ireland has been postponed, pending completion of the postponed arrangements in the case of the Supreme Court of Judicature (England), with a view to secure, if possible, similarity of arrangements in the three countries.

Write to the Lord Chancellor. . . .

My Lords are aware that an attempt was made in the Session of this year to obtain the legislation necessary for this purpose by means of the Supreme Court of Judicature Bill. That Bill, however, could not be proceeded with; and my Lords can only hope that the next attempt to deal with this question will be more successful. In the meanwhile I am to ask whether it might not be possible to make all new appointments conditional on an undertaking by the appointee to submit himself to any rules affecting tenure of office or conditions of employment, which may be hereafter made applicable to his Department.

*Copy to the Queen's and Lord Treasurer's Remembrancer, and to the Accountant General, Four Courts, Dublin.**

20. It is admitted by the Treasury that the present metropolitan magistrates of Dublin hold their appointments on a tenure which precludes their compulsory retirement at the age of 65, under the Order in Council. But the Treasury looks upon them as permanent officers of the Civil Service, and has under consideration the conditions on which magistrates appointed hereafter shall hold these offices.

To the Chief Secretary for Ireland . . . .

My Lords gather from the terms of Sir William Kaye's letter to the magistrates, dated 3 February 1892 (Appropriation Accounts, p. 218), that it has been noted in your office that all future appointments to these posts will be made upon terms which do not conflict with the provisions of the Order in Council of 15 August 1890, the instrument of appointment being modified accordingly. I am to ask whether this conclusion is correct.

III.—Diplomatic and Consular.

21. The grounds on which the Order in Council of 15 August 1890 is deemed by the Secretary of State for Foreign Affairs not to be applicable to the Diplomatic and Consular Services were stated to your Committee by Mr. Hervey, and will be found in his evidence. That opinion is confirmed by Sir Reginald Welby, who calls attention to the fact that, although the Ridley Commission dealt fully with the Diplomatic and Consular Services in their Fourth and last Report, it contains no recommendation of compulsory retirement at the age of 65. Moreover, the Diplomatic Service has its own Pension Act, and its members are retired on pension when they attain the age of 70 years.

22. The Treasury, however, has expressed the opinion that the principle of regulations affecting the general body of permanent Civil Servants should be extended to the Consular Service, so far as the special circumstances of the service allow; and it is proposed to appoint a Departmental Committee of the Treasury and the Foreign Office to consider the point.

Your Committee conclude that fresh arrangements founded on the deliberations of this Departmental Committee may be embodied in a future Order in Council.

Paragraphs 21 and 22 . . . deal with the question of the applicability of the Order in Council of 15 August 1890 to the Diplomatic and Consular Services respectively. It is obvious that the greater part of the Order is intended to meet the circumstances of ordinary clerical establishments, such as are not to be found in those Services. Lord Rosebery will observe that the Committee appear to consider that the Diplomatic Service should not be brought under the operation of that Order; while as regards the Consular Service they anticipate a Special Order in Council following upon a Departmental Committee representing the Foreign Office and this Department.

The Secretary of State is aware that the appointment of such a Committee in respect of the Consular Service is under consideration; and as regards the Diplomatic Service my Lords need only observe that any assimilation between that corps and the Foreign Office staff, such as was recommended by the Royal Commission on Civil Establishments,

* See also P.A.C. 8. 1894. 29, 87, at p. 336.

*would inevitably raise the question of how far differences in the Regulations affecting the age for compulsory retirement and the pension scale of the two branches of the Service could be permitted to exist.**

Civil Servants. Retention after 70.

23. Another point connected with the application of the 10th clause of the Order in Council of 15 August 1890, to which the Comptroller and Auditor General has drawn attention, may be conveniently noticed here.

It appears that in certain cases, which are specified by the Comptroller and Auditor General, the Treasury has sanctioned the continued employment of officers to whom the Order in Council undoubtedly applies, even after they had attained the age of 70 years; and the circumstances under which these arrangements were made have been explained to your Committee by Mr. Hamilton. He freely admits that they were irregular, and does not claim for the Treasury any legal power to dispense with strict fulfilment of the provisions of an Order in Council. But he points out that these arrangements were purely temporary, and that obvious advantage and convenience to public interests were the only considerations which induced the Treasury to assume the responsibility of sanctioning them. Permission was granted, in these instances, for a brief retention of the services of experienced officers, whose immediate and abrupt retirement would have disturbed the organization of departments, or have seriously hindered the completion of important work in progress.

24. Your Committee fully recognize that some elasticity of treatment may have been advantageous to the public service in the first application of the new rule of compulsory retirement; and, viewing these irregular arrangements as expedients for overcoming the difficulties of a transitional period, they cannot take exception to the discretion exercised by the Treasury on its own authority. But, as regards the future, they note that Mr. Hamilton deems the recurrence of such cases to be improbable, and trust that his anticipation will be justified by the action of the Treasury.

My Lords are glad to observe that the Committee do not take exception to the discretion exercised by the Treasury in order to overcome the difficulties of a transitional period. As regards the future, the Committee trust that the anticipation that the recurrence of such cases is improbable will be justified by the action of the Treasury. My Lords fully share the view of the Committee upon this point, and think it practically certain, as well as undoubtedly required by law, that, after the close of the period of transition, no officer exceeding 70 years of age will be retained upon the establishment of a Department, or even engaged upon ordinary official work. It should, however, be remembered that cases may occur, as at the British Museum, in which the public interest will demand that the special artistic knowledge of an officer should be retained after the date at which under the Order in Council he must retire. If that should happen an arrangement must be made whereby a retaining fee will be paid to him, not as an administrative, but as an advising or consulting, officer.

CLASS II., VOTE 23.—STATIONERY AND PRINTING.

Advances to Contractors.

32. A form of contract adopted by the Stationery Office provides that the contractor shall render his bills within one month of the end

* See also P.A.C. 1895 (Session 2). 3, at p. 375.

of each quarter, and " be entitled to receive partial payments not " exceeding in any case five-sixths of the value of the work completed " and delivered within the quarter," the balance being paid on the completion of the necessary examination. But, notwithstanding the terms of the contract, several instances of payments to contractors in excess of the authorized five-sixths, pending an examination of the accounts, have come under the notice of the Comptroller and Auditor General. Your Committee therefore examined the Controller of the Stationery Office upon these payments.

33. Mr. Pigott's reasons for holding them to be both regular and advantageous to the public service are stated in his evidence.

He admitted that, without obtaining the sanction of the Treasury, he had made advances exceeding the proportion prescribed by the terms of the contract, with the object of enabling contractors to meet immediate and pressing liabilities; and strongly maintained that the consideration thus extended to contractors, under circumstances which in his judgment entirely precluded a risk of financial loss, promoted economy in the cost of the service by enlarging the number of firms that could compete for the execution of contracts. Convinced that ready-money payments tend to lower prices, he had made as near an approach to such a system as he could. And he had regarded these payments as technically regular, because they seemed to him to fall exactly under the definition given by the Public Accounts Committee, 1890, of those " Special Cases," in which advances might be made to contractors beyond the amount claimable under the contract.*

Mr. Pigott further explained that it had long been the practice of the Stationery Office to make advances to contractors at its own discretion, without comment on the part of the Treasury or the Comptroller and Auditor General, and that the proportion of five-sixths had been introduced into the form of contract by himself with a view to attract tenders by the assurance that contractors might reckon on payment at least of five-sixths of their claim before the final examination of their account.

34. As to the opinion entertained by the Controller of the Stationery Office, that his procedure in respect of these advances was regular, because it strictly conformed to recommendations of the Public Accounts Committee, 1890, your Committee must observe that those recommendations had reference to Admiralty contracts; and your Committee have no reason for supposing that they were meant to apply to the contracts of other Departments, with the possible exception of the War Office. Moreover, the Committee of 1890 had in view the practice of the Admiralty to make advances to contractors before they were legally due for the purpose of avoiding the surrender of surpluses to the Exchequer; and conditions imposed by them with the intention of checking this practice are cited by the Controller of the Stationery Office in justification of advances made for a different purpose, viz., the pecuniary convenience of contractors.

35. Your Committee cannot therefore admit the existence of any real analogy between the " Special Cases " of the Admiralty contracts and the cases of the Stationery Office contracts to which the Comptroller and Auditor General has called attention. Besides, the requirements and operations of such Departments as the Admiralty and the Stationery Office differ so widely that regulations suited to one of them may be unnecessary or inexpedient for the other.

* See P.A.C. 4. 1890. 6, at p. 255.

36. While your Committee are entirely satisfied that Mr. Pigott's action in the cases under their notice was exclusively guided by regard for the interests of the public service, and have no ground for questioning his conviction that it was conducive to economy, they recommend that, for the future, forms of contract used by the Stationery Office should be submitted to the Treasury for approval, and that advances to contractors should only be made under rules which the Treasury has sanctioned.

To the Controller of the Stationery Office. . . . .

My Lords have had under consideration your reports of 8 *and* 16 *June last, in which you ask for a general authority from this Board to make advances in excess of the amounts allowed by the contracts when this course might appear to be of advantage to the public. You suggested also that future contracts should not contain specific limitations of the amounts to which advances might be claimed.*

Upon this I am to state that, in accordance with the view expressed by the Committee in paragraph 36, *my Lords are hardly prepared to give you such wide discretion as that for which you ask; neither are they clear that the omission from the contracts of the undertaking to pay on account not more than five-sixths of the value of the work would be, on your own showing, advantageous to the public Service.*

Their Lordships accordingly, while giving covering sanction to payments already made in excess of the limit, must ask for some more precise definition of the conditions under which discretion might in future be allowed to you to make such payments. As regards future contracts, I am to request that in submitting revised forms you will draw their special attention to any change which you may propose affecting this point, and will discuss fully the advantages and disadvantages of such changes.

CLASS IV., VOTE 1.—PUBLIC EDUCATION, ENGLAND AND WALES.

Fee Grants.

40. . . . The Comptroller and Auditor General has raised a question as to the interpretation to be put upon the word "school" in the Elementary Education Act, 1891, as affecting claims for excess fees under the 2nd section of that Act. And in view of the complexity and importance of this question the Education Office and the Comptroller and Auditor General propose to obtain guidance from the Law Officers of the Crown by submission to them of an agreed case upon the point.

I am to request you to submit to the Lords of the Committee of Privy Council for Education (but not for publication) the enclosed copy of the opinion of the Law Officers of the Crown upon the case, forwarded by you on 17 *July last, as to the manner in which the ninepenny rule of fee contained in section* 3 *of the Elementary Education Act,* 1870, *is affected by the Elementary Education Act,* 1891, *in regard to schools accepting the Fee Grant.*

You will observe that the Law Officers are of opinion that the Fee Grant is not to be added to the fees payable by or in respect of each scholar in order to determine whether the ninepenny limit has been exceeded. The effect of this opinion is, theoretically, that a school might be in receipt of:—

(1) *Grants under the Education Code.*
(2) *The Fee Grant of* 10*s. per child in average attendance.*
(3) *Ninepence per week from each scholar.*
(4) *Income from rates, endowments, or subscriptions.*

My Lords apprehend that such resources would suffice to supply teaching much above what would be expected from a Public Elementary School. They believe, however, that in England and Wales it is not likely that any such case would arise; but they desire to call the attention of their Lordships of the Committee of Council to the point.

My Lords presume that the joint case (referred to by the Committee) as to the interpretation of the word "school" in the Elementary Education Act, 1891, has not yet been settled; but I am to ask what is the present position of the matter.

EXTRACT from the Comptroller and Auditor General's Report on this Vote, 1892-93 (Civil Services and Revenue Departments Appropriation Accounts; H.C. 510/1894, p. 359):—

"Another question, which was the subject of notice in paragraph 3 of my Report on last year's account, as to the interpretation to be placed upon the term 'department of a school,' in Section 3 of the Act of 1870, when read in connexion with the word 'school' occurring in the Act of 1891, has now also been settled; the decision of the Law Officers, to whom an agreed case had been referred, is to the effect that Section 3 of the Act of 1870 does not mean that a school purely elementary can be divided into departments, so that each department becomes a school within the meaning of the Act. In the case, however, of a school not purely elementary, but having a department in which elementary education is the principal part of the education there given, such a department (other conditions being satisfied) may be deemed to be a school within the meaning of the Act."

VOTE 9.—PUBLIC EDUCATION, SCOTLAND.

Fee Grants.

42. Notwithstanding the opinion of the Law Officers of Scotland, that Scotch schools may charge fees up to the ninepenny limit without regard to the grant received in relief of fees, the Public Accounts Committee, 1892, doubted whether this practice was in harmony with the intentions of Parliament, and regretted that the opinion of the English as well as the Scotch Law Officers of the Crown had not been taken on so important a point, which concerned both England and Scotland.

The question has, in fact, arisen in relation to English schools, and necessitated recourse to the opinion of the English Law Officers upon a case agreed between the English Education Department and the Comptroller and Auditor General. A convenient opportunity thus presented itself of obtaining the opinion of the English as well as the Scotch Law Officers upon the Scotch aspect of the question, and the Treasury suggested to the Scotch Education Department that it should prepare a case to be agreed with the Comptroller and Auditor General for the joint opinion of the English and Scotch Law Officers of the Crown.

Communications have passed between the Comptroller and Auditor General and Mr. Craik, with a view to the preparation of an agreed case; but, as their evidence reveals, difficulties have been met with in the endeavour to arrive at agreement. The description of those difficulties, as they presented themselves to Mr. Craik, did not lead your Committee to regard them as serious; and they were unable to see why agreement should be harder to reach on a Scotch case than an English one. They trust that the joint opinion of the Law Officers of both countries may be obtained without delay upon a question of considerable moment both to English and Scotch schools; and, pending

the receipt of the Law Officers' opinion, future payments of the character here referred to should be held to be made at the risk of the Accounting Officer.

I am now to enclose (but not for publication) a copy of the opinion of the English and Scotch Law Officers . . . .

The effect of that opinion is that a school might be in receipt of—

(1) *Grants under the Education Code.*
(2) *The grant in relief of fees, amounting to about 12s. per child in average attendance.*
(3) *Ninepence per week for each scholar.*
(4) *Income from rates, endowments, or subscriptions.*

My Lords apprehend that such resources would suffice to supply teaching much above what would be usually understood by the term "Elementary Education;" and, as a preliminary to the consideration of the subject, I am to ask for an approximate statement of the number of schools affected by this opinion, and the number of scholars attending them; and also for an explanation how such schools can be distinguished from the system of secondary education for which funds have been provided by Parliament out of the Local Taxation, Scotland, Account.

VOTE 11.—PUBLIC EDUCATION, IRELAND.

44. Your Committee have had under their notice difficulties experienced by the Comptroller and Auditor General in the audit of these accounts, owing to the latitude of discretion exercised by the National Education Commissioners, under Regulation 170.

That regulation provides that where schools have failed to command the requisite average attendance for three consecutive quarters, the salary of the assistant teacher for the third quarter will not be payable, unless there is satisfactory evidence that the reduction of average attendance is due to temporary and exceptional causes, such causes to be clearly set forth in the managers' return, and sustained by medical or other certificates where necessary. And the elasticity of interpretation applied to the phrase "temporary and exceptional causes," is illustrated by the following cases, to which the Comptroller and Auditor General refers.

In one instance, the Commissioners sanctioned payment of salary to an assistant teacher for a third quarter, where the average attendance had not only been insufficient for three consecutive quarters, but where also, during 16 preceding quarters, the attendance had reached the proper average on no more than six occasions.

And, in another instance, where the attendance had been insufficient for three consecutive quarters, payment for the third quarter was allowed, partly on the ground that attendance had fallen off because the parents were away from home working on a new railway.

45. In the judgment of your Committee the regulation appears to have been strained in these cases; but they are aware that the Commissioners are invested with a very large discretion in the administration of the Department, and they recognize the force of the considerations to which the Accounting Officer has attributed the action of the Commissioners in these and similar cases. Your Committee would, however, commend to the notice of the Commissioners the observations of the Comptroller and Auditor General as to the effect of a wide latitude in the interpretation of rules upon the discharge of his duties and the value of his work as the Auditing Officer of Public Accounts; and they trust that the Commissioners will so exercise the discretionary

power entrusted to them as not to raise the question whether that power should be restricted.

The Committee appear to their Lordships to deal in very moderate terms with the manner in which the Commissioners of National Education have exercised the discretion allowed to them by the existing regulations in regard to fluctuations in the average attendance; and I am to express the hope that his Excellency, concurring in the view of this Board, will impress upon the Commissioners the importance of not straining such regulations except in very special circumstances.

It might be well that in such cases as those referred to by the Committee a formal Minute of the Commissioners should record the reasons for exceptional treatment, such Minute being made accessible to the Comptroller and Auditor General.

Class VI., Vote 1.—Superannuation and Retired Allowances.

Special Gratuities in addition to Pensions.

52. The Comptroller and Auditor General calls attention to cases in which gratuities, provided for under Votes for Effective Services, have been awarded to officers, in addition to their pensions, with the intent and effect of raising their retiring allowances to amounts beyond the limits fixed by the Superannuation Act, and he expresses the opinion that such grants are wholly irregular, if not actually illegal.

Their irregularity is conceded by the Treasury; but, as it appears from Mr. Hamilton's evidence that the exceptional treatment of these cases was due to considerations of good faith and equity in the application of the 10th clause of the Order in Council of 15 August 1890, your Committee refrain from comment upon them.

The irregularity of such awards is admitted on all hands; but the Committee do not question the considerations of good faith and equity which in the view of the Treasury necessitated the grant of the special gratuities. While my Lords cannot say that no case will ever recur in which, for one reason or another, the Government of the day may think it right that some addition should be made to the statutory pension, they conceive that such cases would, in the future, be extremely rare; and they desire here to record their opinion, already expressed on other occasions, that special services should, if calling for special reward, be dealt with at the time, and not left over for consideration in connexion with the award of a pension. As a further safeguard against such extra rewards, they think it desirable that, at least in the case of Civil Departments, no special gratuity should be paid in connexion with the retirement of an officer, until explicit provision has been made for it in the Estimates, and the money has been voted by Parliament. This practice they have adopted already in several cases.

Woods, Forests, and Land Revenues.

Farms in hand; Accounts not published.

55. The Comptroller and Auditor General observed, in his Report on the Accounts of this Department for the year 1890–91, that the accounts of receipts and payments in respect of three farms then in hand had been rendered to him in such a form that he was unable to ascertain whether these farms were being worked at a profit or at a loss. And the Public Accounts Committee, 1892, expressed the opinion that the form of accounts should be so amended as to enable the

Comptroller and Auditor General to state the facts as regards farms in hand for the information of Parliament. But the Committee did not take evidence on this point from any officer of the Woods and Forests and Land Revenues Department.

56. As appears now, from the Report of the Comptroller and Auditor General on these Accounts for 1891–92, they have not been amended in the manner suggested. And your Committee learn from Mr. Hamilton that, when the Treasury inquired of the Commissioners of Woods and Forests whether they saw any objection to furnishing the Comptroller and Auditor General with a copy of the accounts annually rendered to the Treasury respecting farms in hand, the Commissioners replied that there would be very strong objections, in their judgment, to such a course, if publicity were given to all these acccounts. It should be added that the system under which the accounts of farms in hand are kept and annually submitted to the Treasury was settled in 1885, and was then considered by the Treasury to be the best that could be adopted. In deference to the objections of the Commissioners to the course suggested, the Treasury forbore to press the matter, and awaited further consideration of the question by your Committee.

57. Your Committee have, therefore, examined one of the Commissioners of Woods and Forests; and it will be seen, on reference to the evidence of Sir Nigel Kingscote, that while the Commissioners have no desire to withhold any information from the Comptroller and Auditor General, they earnestly deprecate the adoption of a procedure which would involve the publication of annual statements of estimated profit and loss on the working of farms in hand. They are convinced that the publication of these annual statements, which are only approximate and provisional estimates, might give rise to erroneous impressions respecting the true value of the farms, and, likewise, prove in other ways to be extremely prejudicial to the administration of the Land Revenues.

58. Your Committee, having had the advantage of receiving evidence on the part of of the Commissioners of Woods and Forests, and attaching much weight to the considerations pressed upon them, cannot recommend that steps should be taken which might have the injurious effects anticipated by the officers directly charged with the administration of the Land Revenues.

You will be glad to observe that the Committee accept the view expressed by Sir Nigel Kingscote as to the inexpediency of publishing annual accounts of the profit or loss on working farms in hand.

SECOND REPORT, 1894. H.C. 215.

Treasury Minute, 18 *October* 1894.

ARMY APPROPRIATION ACCOUNT.

VOTE 5.

Gratuities to Volunteers Injured in Railway Accident.

2. In paragraph 9 of his Report, the Comptroller and Auditor General remarks that a sum of £244 13*s*. was paid in gratuities to certain volunteers injured in a railway collision who had already

received compensation from the railway company. The War Office hold that the men are entitled, under the regulations, to the gratuities, irrespective of any compensation obtained or obtainable otherwise; and this does indeed accord with the strict interpretation of the regulations. Your Committee, however, apprehend that to some extent in this case pecuniary reparation has been allowed twice over, that before granting gratuities in such cases the War Office should be informed of and take into consideration any compensation that may have been awarded from sources other than the State, and that the regulation should be modified with this view.

My Lords agree with the Committee that, in awarding gratuities to Volunteers injured in a railway accident, regard should be had to any compensation recoverable from the railway company. The Volunteer Regulations (Clause 627) name a maximum daily compensation, and seem to permit the Secretary of State to grant any less sum that the circumstances justify.

Note.—The regulations were modified later, see P.A.C. 3. 1901. 4, and subsequently the Treasury departed to some extent from the position defined above, see para. 15, page 138, Army Appropriation Account 1909-10, H.C. 13/1911, and Q. 2612-30, P.A.C. 1911.

VOTE 8.

" Casual Difference " inadequate as " Explanation."

6. The Comptroller and Auditor General, in paragraph 12, notices what he regards as inadequate explanation from the War Office of the differences between estimated and actual receipts, especially with reference to the too frequent occurrence of the term " casual." The matter has been dealt with by the Treasury (*see* their letter of 30 December 1893). In one instance an excess appears to have been due, according to the War Office, to payments in one year for contracts not completed in the previous year, while no mention is made of increased purchases in order not to lose advantage of favourable prices, to which purchase the deficit had been ascribed in a Treasury Minute. Your Committee have impressed on the War Office the importance of explicitness in explanations, and the avoidance of merely general terms such as " casual."

It is by no means easy to lay down rules as to the extent of these explanations. But general terms which do not give any clue to the real causes of difference should be avoided whenever it is possible to give a precise explanation in a small compass.

VOTE 9.

Free Grant of Stores.

10. Your Committee observe (*see* note on page 39 of the Appropriation Account) that stores to the value of £3,520 were given by the General Officer commanding at Malta, for the relief of sufferers by the earthquake at Zante. This of course had not been provided for in the Votes, but was sanctioned by the Treasury under what are held to be its prescriptive powers. Under these circumstances the Comptroller and Auditor General did not deem it necessary to raise objection. It is to be remarked that this case came to his knowledge through a note on the Appropriation Account inserted by the War Office. He states that it is not always possible for him to have a knowledge of the distribution of stores. At the same time, even without the note, he might have known of the matter, had he been charged with the examination of store accounts in absolute detail; but as a matter of fact his check upon the

store accounts is a test examination of a very limited character. This consideration raises a separate question, inasmuch as the amount in value, though actually small, might conceivably have been much larger. Meanwhile your Committee consider that as the charge does not belong to the Army Votes, the proper course would have been to transfer it to the Civil Services, presenting a Supplementary Estimate for the amount. In justice, however, to the Treasury, it should be mentioned that, in their view, as it was unnecessary to replace these stores, a Vote for them was unnecessary also; also that as the gift of them was made on the responsibility of Army Officers exclusively, it seemed *primâ facie* more appropriate to leave the record of the transaction in the Army Account.

It will be observed that the Committee hold that the proper course would have been to transfer the charge of the gifts of stores for the relief of sufferers by the earthquake at Zante to Civil Votes, by presenting a Supplementary Estimate for the amount. The Secretary of State will perceive, however, from the annexed copy of paragraphs 55 to 57 of the Fourth Report of the Committee [see p. 353], *that this view is hardly consistent with the concurrence expressed in the last of those paragraphs in the opinion of the Treasury that it is imperative on Departments whose officers are responsible for such gifts not only to report them to the Treasury, but to record them in the Appropriation Accounts. A transfer of the charge to Civil Votes would withdraw the record from the Appropriation Account of the responsible Department.*

VOTE 10.

Questionable Charges for Buildings.

12. The Comptroller and Auditor General (paragraph 18) notices that a sum of £452 18*s*. 2*d*. was applied to arm racks at Weedon, out of moneys provided for sheds. This was sanctioned by the Treasury on the obviously proper condition that the Committee of Supply in the House of Commons should be informed of the substitution before the Vote came up for discussion. It appears, however, that no note to this effect was either circulated or appended to the Estimates, nor was any verbal statement made. Your Committee find, on inquiry, that there was no valid reason for this omission, and the War Department has expressed its regret, as will be seen from Mr. Brodrick's letter in the Appendix. The Comptroller and Auditor General has not been able to report this sum for allowance. Your Committee consider that under the circumstances it should now be passed, but they consider that if a variation from a Vote, as originally presented, is proposed before the Vote is taken, a revise of that Vote should be submitted to Parliament.

As recommended by the Committee, my Lords now give their covering sanction to the charge against Vote 10 of £452 18s. 2d. for the rifle racks at Weedon, and feel sure that the Secretary of State will be prepared to act upon the injunction of the Committee as to apprising Parliament of modifications of the building programme of the year that may be determined upon before the Works Vote has been taken.

Payments not made in the Financial Year.

14. In paragraph 19 the Comptroller and Auditor General refers to certain purchases of land wherein payment was made to the agents but not to the principals within the financial year; or in other words, where payment has been brought to account in the financial year 1892–93, although the title of the War Department was not completed and possession of the land was not obtained until after the end of the year.

Your Committee recognize the general rule to the effect that, in accounting for public expenditure, the date of an order for payment governs the date of charge. But they agree with the Comptroller and Auditor General in considering that this rule is not applicable when the order for payment, though drawn before 31 March, has been issued not to the vendor or payee but to an agent of the Accounting Department, and has only reached the former on the maturity of his claim in the succeeding financial year.

The total of the payments involved amount together to the sum of £1,427 4*s.* 4*d.*, which not having properly come in course of payment within the year 1892–93, cannot, in the opinion of the Comptroller and Auditor General, be reported for allowance in the accounts for that year.

Your Committee consider that the amount must accordingly be disallowed.

A payment cannot, by simple antedating, be brought into legitimate charge against the Vote for a year in which the payment neither became due nor was actually made. No doubt this rule may entail inconvenience when its effect is to throw a charge off the year in which Parliament has provided for it on to a year in which no provision has been made for it. But no other ruling would be consistent with section 24 of the Exchequer and Audit Departments Act, 1866.

Exchanges of Land.

15. The Comptroller and Auditor General notices in paragraph 21 of his Report some exchanges of land between the War Office and certain railway companies. Your Committee observe that there are no official means whereby transactions relating to exchanges of land are required to be brought under the cognizance of Parliament, unless some expenditure of money is involved, and that the security afforded by authoritative sanction rests only with the Treasury. Your Committee, however, think it desirable that the Treasury should consider whether some means could be devised for bringing transactions of this nature periodically before Parliament.

The Committee observe on the absence of information to Parliament when such exchanges involve no money payment. It seems to my Lords that information might be conveniently given by means of notes in the yearly Appropriation Account under Vote 10*; and they would ask whether the Secretary of State concurs in the adoption of this course.*

Army (Ordnance Factories) Appropriation Account.

Excess Expenditure on Machinery.

27. In his paragraph 4 the Comptroller and Auditor General adverts to an excess of £13,587 15s. over the anticipated expenditure upon machinery. It is clear that the Treasury sanction was needed. Your Committee learn that this will be obtained in future; and the presentation of an Excess Vote to Parliament, which had the approval of the Treasury and covers this transaction, has rectified the irregularity for the present.

Under the new regulations . . . , which provide for a distinct estimate of incomings and outgoings in respect of capital, any excess on estimated expenditure for contract machinery and home-made machinery, respectively, will as such require express Treasury sanction.

CHELSEA HOSPITAL.

Pensioners' Pocket-money.

28. In paragraph 5 the Comptroller and Auditor General observes that, as the Hospital Commissioners have augmented revenue from rents of a portion of the Golden House property, and applied it in additional bounties to the in-pensioners, there might be a question whether a corresponding reduction should not be made in the provision of pay for these pensioners now inserted in Army Vote 15. Your Committee learn in reference to this that the penny which the Commissioners received from the public was held to be inadequate, and that therefore a penny was added from the private funds of the hospital. But your Committee consider that the right of the Commissioners to appropriate any part of the corpus or capital at their disposal is a matter for further consideration next year.*

My Lords have already decided that the payment of an extra penny a day a head to in-pensioner drummers and privates, out of the rents of the Gordon House Estate, need not be made a ground for reducing the Parliamentary provision for in-pensioners' pay. From the reign of William the Third until 1850, *the pocket money of these in-pensioners provided from Army Votes was* 10*d. a week for drummers and* 8*d. a week for privates. By the Royal Warrant of* 12 *August* 1850, *it was fixed at* 3*d. a day for drummers and* 2*d. a day for* 1*st class privates,* 1½*d. a day for* 2*nd class, and* 1*d. a day for* 3*rd class. The penny a day now added by the Chelsea Hospital Commissioners does not seem to call for any abatement from that scale.*

ARMY ORDNANCE FACTORIES (MANUFACTURING ACCOUNTS).

Comparison of Factory Cost with Contractors' Prices.

43. From paragraph 18 of the Comptroller and Auditor General's Report it appears that he was invited by the Treasury to make a comparison of factory cost with contractors' prices, and report to Parliament whether the results appeared to him to be satisfactory. But the Treasury attached the condition that he should withhold the particulars in deference to objections raised by the War Office. Indeed, the publication of such details might amount to a breach of faith with the contractors. The Comptroller and Auditor General has been unable to undertake this work because, as a Parliamentary officer, he must be at liberty to produce to Parliament any detailed reasons he may have for any conclusion. Otherwise a conclusion of his might be challenged, and he would be unable to adduce proofs for it. Your Committee accept the opinion of the Comptroller and Auditor General to the effect that it would not be desirable for him to undertake the duty under these conditions. They, however, think that the Treasury should reconsider the question in concert with the War Office, with a view to the audit being conducted according to the wishes of the Comptroller and Auditor General.

The Committee seem to agree that the Comptroller and Auditor General ought not to undertake to make this comparison, unless he be allowed to communicate the particulars to Parliament, and that the publication of such particulars might involve a breach of faith with contractors. Nevertheless they wish my Lords to reconsider the question in concert with the War Office. My Lords will be glad to hear whether the Secretary of State can suggest any practicable compromise.†

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* See P.A.C. 4. 1895. 2, at p. 869. † In 1895 the Committee refrain from pressing the point, but see P.A.C. 2. 1907. 32, at p. 492.

Navy Appropriation Account.

Habitual Over-Estimate of Certain Votes.

45. In paragraph 6 of his Report the Comptroller and Auditor General, after setting forth several surpluses in the Shipbuilding and Works Votes over six years, amounting in all to nearly 1½ millions, remarks that if a margin of saving potentially applicable to meet deficits elsewhere becomes normal, an inclination to less careful observance of the lines of expenditure set out in the Estimates, and covered by the Appropriation Act each year, may be engendered. Among the correspondence attached is a Treasury Letter (page 162*), wherein it is observed that over-estimates prove to be habitual through a series of years, and therefore present the appearance, at least, of being deliberate—that constancy of over-estimate is the striking feature, suggesting the inference that these Votes may have been regarded as " pools " to be drawn upon in aid of other Votes, as occasion arises.

46. Your Committee think that there is much gravity in these statements, and have made careful inquiries of the Admiralty on the subject, especially as the apprehension arises that there might be a corresponding under-estimate of other Votes. They have not, however, been able to reach beyond what may be termed a general explanation. The obligation of framing the estimates of shipbuilding expenditure as accurately as possible is acknowledged. The causes of partial failure of the estimates are said to be the disturbances of trade during these years. For some years the shipbuilding was prosperous. In other years there were strikes and labour difficulties to prevent the contractors from actually earning the amount of money which they stated 12 or 15 months beforehand they would be likely to earn. As to fault, that is attributed to the contractors and to the circumstances of England at the time; but is not at all admitted on behalf of the Admiralty.

47. On the other hand, the Admiralty state that though there proves to have been over-provision owing to general causes such as the above, yet efforts have been made to bring about a closer approximation between estimate and expenditure, and that less sanguine estimates have been formed. Their desire is to make an honest estimate of each Vote, and, while avoiding undue risk of an excess on the aggregate of the Votes, to reduce as far as possible the probability of recurring excesses on particular Votes. In justice to them, your Committee have considered a statement of considerable sums surrendered on the whole account to the Exchequer during the years in question. These surpluses were surrendered at the end of the year, as the final outcome, after Treasury sanction had been obtained for various transfers from one Vote to another. Your Committee observe that this does not afford a complete or an exact answer to the remarks made by the Treasury and Comptroller and Auditor General. But it does show that the surpluses were often applied in the best manner, namely, in surrender, and not always in meeting deficiencies.

48. Your Committee have drawn attention to the power practically possessed by the Admiralty of keeping the contractors to working more than heretofore, in accordance with the estimates of the contract work submitted originally by the contractors themselves.

49. Your Committee would add that in these important cases there is no question of regularity or legality respecting the sanction of the

* The reference is to the Navy Appropriation Account, H.C. 519/1894.

Treasury, as set forth in the Appropriation Act. The question is one only of administrative discretion. It is to be observed that in all transfers, that is, the defrayal of expenditure out of surpluses, urgency is implied by the words " which it would be detrimental to the public Service to postpone till provision can be made by Parliament." Doubtless the Treasury satisfied themselves upon the merits of the case for urgency, as made out by the Admiralty in these instances.

My Lords need add little to the remarks of the Committee on this subject. As regards both Vote 8 III., Contract Shipbuilding, and Vote 10, Works, their Lordships can understand the desire of the Admiralty to make an outside estimate for each item of the programme of the year, because of the difficulty of foreseeing which of them it may not prove desirable to push forward, or on which of them contractors may not turn out to have been unusually accurate in their forecast. In such cases a full estimate might be made in detail, but a deduction for probable over-estimate could be made from the total of the subhead. (Vide p. 38 of Civil Service Estimates, 1894–95.) *By such means,* and by keeping contractors more closely to their promises, my Lords think that the habitual over-estimate of these particular Votes might be much reduced.*

As regards the " urgency " to which the Committee allude, in their 49th paragraph, as required by the Appropriation Act to justify the use of savings on one Vote to meet a deficit on another, it is not easy to bring the case of using surpluses to cover automatic excesses, or excesses that are not discovered until the close of the year, into precise consistence with the terms of section 4. A strict observance, however, of the regulations prescribed by Treasury Minute of 20 August 1889† will afford the best guarantee that the intention of Parliament is fulfilled as closely as practicable.

VOTE 8, I.

Overtime at Malta Dockyard.

55. The Comptroller and Auditor General deemed it necessary to ascertain from the Admiralty whether existing regulations provide for securing systematic supervision. The Admiralty reply that overtime is resorted to only in cases of necessity, and that the attendance of salaried officers is constant when men are working overtime, and that the time of employment is noted by the recorders of work. Your Committee consider that in these respects the observance of the rules should be the same at Malta as in the Home Yards.

My Lords can understand that at places abroad where the supply of skilled labour is very limited, overtime may be necessary for meeting sudden and urgent demands, to a degree that is not experienced at home yards. So far as their Lordships can judge, the rules on the subject communicated in the Admiralty Letter of March last are calculated to prevent abuse.

DOCKYARD EXPENSE AND MANUFACTURING ACCOUNTS.

Programme and Performance in Shipbuilding.

81. In paragraph 15, the Comptroller and Auditor General adverts to departure from the Programme submitted to Parliament whereby the work upon the " Magnificent " was not taken in hand in order to devote

* See P.A.C. 2. 1925. 3 at p. 685. † See pp. 227-9.

the labour to the more rapid completion of the Naval Defence Ships. He further inquired whether Treasury sanction was obtained thereto, and whether fuller explanations should not be given respecting certain other variations from the Programme. Your Committee observe that in reply to a reference from him the Admiralty in effect maintain that within the limits of the Subheads of the Programme they are not subject to Treasury control except in cases where ships not mentioned in the Programme are commenced. Referring to this, he proceeds to state his views in a Memorandum which will be found in the Evidence, respecting the examination according to Programme required by the Army and Navy Audit Act of 1889 (section 1 (2)). It is to have regard not merely to commission but also to omission of expenditure. If there has been less expended on a vessel, an adequate explanation should be furnished for the variation, and similarly for excess expenditure on a vessel. He adverts to the difference between the Programme and ordinary estimates. For these estimates there is no legislative or statutory sanction, consequently it is only Treasury regulation which requires any following of the Estimate in detail. But the direction to the Comptroller and Auditor General to follow the Programme is statutory, and therefore one which does not lie either with the Admiralty or the Treasury to be departed from without explanation being rendered. By the expression "following the Programme," your Committee understand that the Comptroller and Auditor General has to compare the particulars of the Programme with actual performance. The Treasury appear to appreciate the obligation of the Comptroller and Auditor General to act upon this view, so far as reporting to Parliament may be concerned.

82. Your Committee recognize the statutory obligation resting on the Comptroller and Auditor General to follow the Programme in the manner above described. But it seems doubtful whether the sanction of Parliament could be obtained beforehand to alteration of detail. The Comptroller and Auditor General appears to think that this was not necessary and was indeed hardly practicable. In his opinion the point is that Parliament should be informed of the variation with suitable explanations, which is obtainable through the Account, and that by these means the earliest practicable information should be obtained.

Departures from the Programme, which do not involve the commencement of new ships not included in the Programme, and which do not entail an excess on a Subhead of the Programme, may be made without Treasury sanction, but may nevertheless form a legitimate subject of comment by the Comptroller and Auditor General, and should be adequately explained by the Admiralty.*

Store Accounts of the Navy.

Naval Stores. Value of Stocks, 31 March.

86. The Comptroller and Auditor General, in paragraph 1, desires a statement under Vote 8, Part II., showing the causes that make for or against an equilibrium of stock annually. Your Committee learn that such a statement will be presented.

My Lords concur in the proposal to annex to Vote 8 II., in the Annual Appropriation Account, a statement showing the chief causes that have affected the increase or decrease of the stock of shipbuilding stores during the year.

* On the general question of Treasury intervention see also T.L. 2357 05, dated 23 February 1905, at p. 212 of Dockyard Expense Accounts 1903-4, H.C. 76/1905.

Receipts given for Stores that have not been issued.

93. . . . In his Report upon Store Accounts, 1891-92 he [the Comptroller and Auditor General] adverted to receipts being given for stores that were never actually issued, the demand notes being presented at the store counters already receipted, and issues for various causes not being made at the time. During the year under report, 1892-93, many similar instances have been noticed at Devonport; and two cases at Chatham, where signed demands for coal, which should have been cancelled, were inadvertently treated as if the coals had been actually issued. He adds that this practice is of long standing. On 9 January of the present year (1894) an order was issued to the Yards requesting the local authorities to take the necessary measures to stop the irregularity, as it might lead to a misappropriation of Government stores. The orders are now made peremptory, and the irregularity is believed to be stopped.

94. Your Committee have given close attention to these statements, which they regard as very unsatisfactory, especially as a whole year elapsed during which the attempts to stop the fault were unsuccessful. The explanation, too, increases their apprehension. It runs thus: There is a large number of men involved in the matter; they bring a demand note, and, to save time when removing the articles, they sign the documents in anticipation. On this your Committee observe that the storekeeper gets the demand note receipted, though he has not issued the stores, and he uses it to discharge himself of the goods in the demand note. He will presumably do right, but he may in this case do wrong, that is, misappropriate the stores. Such a malpractice would be all the easier if the articles happened to be small, such as could be pilfered by degrees. There would be collateral checks indeed, but your Committee learn from the Comptroller and Auditor General that these might not prove effective. The storekeeper may be more to blame than the comparatively ignorant men who bring the demand notes, although the official who makes the demand may be of a higher status. At all events your Committee observe that the storekeeper is the officer entrusted with the safe custody of the goods, and if he takes a discharge voucher without having issued stores against them he commits a breach of trust.

95. Under the circumstances, your Committee think that every storekeeper should be warned that if he takes a receipted demand note for stores, without in return issuing those stores, he will incur not only censure, but something even more severe than that. Doubtless the Admiralty have already issued stringent orders on the subject; and your Committee trust that the prominent notice now taken of the matter will ensure the cessation of the fault.

The Board of Admiralty will note the strong views entertained by the Committee as to the impropriety of the acceptance by a storekeeper of a discharge voucher for stores without issuing the full amount of stores demanded in it, or recording the partial issue upon it. No doubt the practice opens the door to serious fraud, and my Lords hope that it will now be entirely stopped.

THIRD REPORT, 1894. H.C. 226.

Treasury Minute, 15 *December* 1894.

CIVIL SERVICES AND REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS.

Parliamentary Control over Extra Receipts appropriated in aid of Exchequer Grants.

4. In his paragraph 5 the Comptroller and Auditor General adverts to the operation of section 2 of the Public Accounts and Charges Act of 1891 (54 & 55 Vict. c. 24). Under the powers thereby conferred upon the Treasury, the practice of treating extra receipts hitherto paid into the Exchequer as Appropriations in Aid, has been extended to 39 Votes in the Civil Service Estimates. He remarks that as the amounts thus placed at the disposal of the several Departments are set forth in the Estimates, the passing of those Estimates by the House of Commons may be considered as inferentially giving Parliamentary sanction in each case for the total expenditure to be defrayed out of the net grants, as shown by the Annual Appropration Acts, and out of the Appropriations in Aid allocated by the Treasury to the respective services. But as this practice is likely to be still further extended, he draws attention to the constitutional change flowing therefrom, although the change has received legislative sanction by the Act above cited. In illustration of this he adduces several noteworthy instances in his paragraph 5. As regards the Votes for the Army, Navy, Ordnance Factories, and Civil Services and Revenue Departments, which are taken net, out of a gross estimate of £60,224,009, a sum of £51,928,995 has been appropriated by the Appropriation Act, and a sum of £8,295,014 has been treated as Appropriations in Aid under various Treasury Minutes. For the Mint (a self-supporting service) only £44 was granted by the Appropriation Act of 1892, while a sum of £76,900 was appropriated in aid. For the County Courts, while a sum of £37,029 was granted by the Appropriation Act, a sum of £380,000 was appropriated by a Treasury Minute.

5. Your Committee observe, from his paragraph 6, that the practice has necessitated some modification of the summaries appended to the classes, so as to compare the gross expenditure with the gross grants, as well as to show the variation between the sums estimated and realized as Appropriations in Aid, together with extra receipts payable to the Exchequer.

6. On the whole, he suggests, at the end of his paragraph 5, that it may be necessary to give some more formal and distinct Parliamentary sanction for the application of the Appropriations in Aid by means of the Appropriation Act itself year by year.

7. It will be seen from several passages in the evidence that your Committee have noticed the objections which may be thought to exist against this practice. But they accept it as having been sanctioned by the Legislature in so recent a year as 1891. Still, having regard to the Comptroller and Auditor General's suggestion, they have referred it to the Treasury for immediate consideration. Consequently, the Treasury having conferred informally with the Comptroller and Auditor General, and having consulted the officers of the House of Commons, have framed a proposal which, if adopted, will meet the suggestion of the Comptroller and Auditor General. The terms and particulars of the proposal are set forth in Papers which have been handed in to your Committee and will be found appended to the Evidence.

8. It is admitted in the Treasury Memorandum that there is at present no formal Parliamentary recognition or limit of the further sums which, under the power given by section 2 of the Public Accounts and Charges Act, 1891, are shown in the Estimates as intended to be applied in aid of, that is, in addition to, the Exchequer Grants. With a view to meet this point, it is proposed to amend the Appropriation Act as under, viz. :—

(1) To insert after the second paragraph of section 3, Appropriation of Grants, the following words :—" In addition to the " sums hereby granted out of the Consolidated Fund, there may be " applied out of any money directed under section 2 of the Public " Accounts and Charges Act of 1891, to be applied as Appropria- " tions in Aid of the Grants for the Services and Purposes specified " in Schedule B., annexed hereto, the sums respectively set forth " in the last column of the said Schedule."

(2) To set out in an additional column in the Schedule, which appropriates and limits the amounts of the Grants in Supply, the several sums intended to be applied in aid of those Grants, as specified in the Estimates of the various Services upon which the Grants have been based.

9. The Treasury go on to say that by the course proposed, statutory authority will be given year by year for the application of sums not exceeding the amount shown in the Estimates, and the effect will be to formally limit the spending authority of the Departments, as regards the Appropriations in Aid, in the same manner as it is now limited as regards Exchequer Grants.

10. Your Committee recommend the adoption of these proposals by Parliament as being essential to the object justly aimed at by the Comptroller and Auditor General.

By section 2 of the Public Accounts and Charges Act, 1891, statutory power was given to the Treasury, in general terms, to direct the application of extra receipts as Appropriations in Aid of moneys provided by Parliament for the various services; but it was pointed out by the Comptroller and Auditor General that, while the Appropriation Act of each Session brought together and limited the appropriation of the sums granted out of the Consolidated Fund for the expenditure of the financial year, there existed no Parliamentary recognition or limitation of the further sums which (under the statutory power above mentioned) were shown in the Estimates as intended to be applied in aid of, that is, in addition to the net Exchequer Grants. The contention of the Comptroller and Auditor General, which was endorsed by the Committee, was at once admitted by the Treasury, and proposals were laid before the Committee on behalf of this Board for amending the wording of the Appropriation Act and its schedules, and for authorizing explicitly year by year the application of the sums which are shown in the Estimates to be intended to be used as Appropriations in Aid. These proposals, which were framed in communication with the Comptroller and Auditor General, and received the approval of the Committee, were embodied in the Appropriation Act, 1894 (57 & 58 Vict. c. 59) in the form (a) of paragraph 3 of section 3, and (b) of an additional column to those schedules of the Act which are affected by the system of Appropriations in Aid. The effect will be to limit the spending authority of the Departments, as regards Appropriations in Aid, in the same manner as it is now limited as regards Exchequer Grants. Their Lordships are glad to think that the matter, which is one of some constitutional importance, has thus been settled in a manner which commands general agreement.

It may, however, be well to state that this change will not affect the recognized method of using, in reduction of issues out of the Exchequer, any receipts which may be in excess of the estimated Appropriations in Aid. Resort to that method by the Treasury in no way increases the spending power of the Department concerned; for, of course, it entails a corresponding saving on the grants, which saving has to be surrendered to the Exchequer by a write-off from the Exchequer Grant.*

In reviewing the alterations introduced into the 3rd section of the Appropriation Act of last Session, my Lords are also led to observe that some consequential amendments may have to be made in the wording of sections 4 and 5, in order that there may be no conflict of wording in the Act, nor any interference with the present practice in regard to excesses of Appropriations in Aid.†

MINUTE on Extra Receipts. (Opinion of Officers of the House of Commons.)—Appendix No. 2 to 3rd Report, 1894.

With reference to the question raised in the General Report of the Comptroller and Auditor General, whether it is expedient to obtain the sanction of Parliament to the expenditure by the Departments of the estimated amount of Extra Receipts set forth in the Annual Estimates in the Appropriation Act only, or first in Committee of Supply and afterwards in the Appropriation Act, the considerations against any change in the existing system have been already set forth by Mr. Dodson and Sir T. Erskine May at pages 140 and 142 of the Third Report of the Committee of Public Accounts in 1881, and it is unnecessary to enlarge on them here beyond saying that the teachings of practical experience which influenced the minds of those distinguished authorities some 13 years ago have gathered force year by year.

Under the present system the amounts of the Extra Receipts authorized to be spent are clearly set forth in the Annual Estimates; and no money is voted or spent without the full knowledge of the House of Commons.

If, however, this is not enough, and it is thought right that more full Parliamentary authority should be given to the spending of these Extra Receipts, the Officers of the House are unanimous that the most proper way, both from a constitutional point of view and from that of husbanding the time of the House, would be an additional column in the Schedule of the Appropriation Bill.

This would limit and give full statutory sanction to such expenditure. It would avoid the inconvenience of confusing in one Vote estimated, and necessarily uncertain and even speculative, receipts with definite expenditure recommended by the Government on their responsibility as necessary for the public Service, and would not to the same wide extent open up and suggest comment on, and consequent justification of, the propriety of all the items of Extra Receipts.

Readily intelligible information tends to anticipate objection and save debate in Committee of Supply, and it might be given with the greatest fulness in the Estimates. The Vote of the House would be taken once only on Extra Receipts at a favourable time for the despatch of business, and on the simplest issue, viz., the amounts set forth in the new column of the Schedule of the Appropriation Bill.

CLASS I, VOTE 7.—DIPLOMATIC AND CONSULAR BUILDINGS.

New Works.

11. The Comptroller and Auditor General, at page 38, paragraph 2, adverts to the unforeseen expenditure in several cases, and specially to two cases where expenditure has been incurred in excess of the amount provided, as well as to ten cases where no provision had been made.

* For later procedure *see* P.A.C. 2. 1925. 9, at p. 687.

† See P.A.C. 1. 1907. 2, at p. 485.

The number of these cases seems great, but it must be looked at in relation to the total number of these buildings scattered over the world. Moreover, in some cases, the amounts are trivial. The Treasury explain that there was real urgency, especially in the cases of Zanzibar and Beira, and that some provision had been made in the preceding year's Estimates though the cost fell in this year. They hold that they have acted, when giving their sanction, within the limits prescribed by Parliament, and your Committee observe that the Comptroller and Auditor General accepts their view. Your Committee desire to impress on those concerned the importance of not incurring expenditure in the absence of due provision in the Estimates.

It is clear that individual cases of urgency must occasionally arise during a financial year, which could not be anticipated when the estimate was being framed in the preceding financial year. Before sanctioning such unforeseen expenditure on new works within the limit of the Vote of Parliament, my Lords require to be satisfied as to the reasons for incurring expenditure not specifically indicated in the Estimate submitted to Parliament. They note that the Committee does not question the exercise of this Board's discretion in sanctioning unforeseen expenditure in such cases.

VOTE 8.—REVENUE DEPARTMENT BUILDINGS, GREAT BRITAIN.

Remanets of Expenditure.

12. In his paragraph 2 the Comptroller and Auditor General points out that in future, whenever remanets of expenditure occur, certain additional details should be furnished in order that full information may be afforded to Parliament. Your Committee note that the Treasury accept this suggestion.

As the Committee point out, the Treasury has accepted the suggestion of the Comptroller and Auditor General that in future, whenever remanets of expenditure occur, the total expenditure as compared with the total estimate should be stated for the information of Parliament.

CLASS III., VOTE 1.—LAW CHARGES, ENGLAND.

Clerks and Messengers paid out of Lump Sums.

28. In his second paragraph the Comptroller and Auditor General raises the question whether, in reference to the Treasury Minute of 6 December 1893, steps should not be taken to include in Schedule B. those clerks and messengers who are paid out of lump sums granted to heads of departments. It appears that such sums are granted to departmental authorities for defraying the cost of their staff, according to the recommendations of a Departmental Committee. In the case of the Solicitor to the Treasury this was thought specially desirable, inasmuch as it is difficult for him to get as permanent Civil Servants the men he needs, and it was considered he would be better suited by having this sum of money, and being thus allowed to get his own men. The Treasury, however, think it better not to include in Schedule B. the persons thus employed, in order to make it clear that in the technical and official sense they are not Civil Servants, and so to keep them clear of all Orders in Council, inasmuch as most, though not all, of the persons included in that schedule have pensionary claims, and it is always desirable to limit such claims so far as may be fairly possible. Your Committee observe that the Treasury have hesitated to include in this schedule men who are not Civil Servants and have only a temporary position. On the other hand, your Committee's predecessors last year (*see* paragraph 38 of their Third Report) stated as follows: "They are

" not insensible to the weight of the considerations which have deterred " the Treasury from placing the messengers in Schedule B., but they are " of opinion that the better course under present conditions would be to " remove all doubts as to the regularity of these and like appointments " by adding them to Schedule B. of the Order in Council of the " 4 June 1870." Your Committee must adhere to this view, especially as the men, though nominally and technically temporary, are actually retained for long periods, and as the Order in Council sets forth that no man shall be permanently or temporarily employed without a Civil Service certificate, thereby implying that a certain sort of employment was within contemplation.

The view of this Board . . . has been adverse to the inclusion in Schedule B. of persons so employed, on the ground that they are in the temporary personal employment of the head of the Department, and are not Civil Servants. Notwithstanding that view, however, my Lords are prepared, as was intimated before the Committee on behalf of the Treasury, to defer to the view which has commended itself to the Public Accounts Committees of two successive years, and will accordingly take steps for carrying out the arrangement so far as the particular circumstances of each Department conveniently admit of the change. An essential point will be to make it perfectly clear that by the proposed change the temporary employees in question acquire no claim to permanent employment, and no title to pension when their employment ceases.

VOTE 3.—SUPREME COURT OF JUDICATURE.

Retirement of Officers: Age Limit.

29. In reference to paragraph 3 of the Comptroller and Auditor General's Report, relating to the condition under which new appointments are made by the Lord Chancellor, your Committee learn that his Lordship is prepared to make new appointments, when they lie with him personally, subject to the restrictions as to age, or to any future regulations that may be laid down under authority to be conferred by statute. It is to be remembered, however, that this refers to a state of things which your Committee hope will be but temporary, and that the subject, that of subjecting officers of the Legal Department to the same Orders in Council as those which regulate the Civil Service, is likely to come under the consideration of the Legislature.

VOTE 11.—LAW CHARGES AND COURTS OF LAW, SCOTLAND.

Retirement of Officers: Age Limit.

37. In his paragraph 3, the Comptroller and Auditor General adverts to the age limit for officers. Your Committee learn that it was intended that after the Lord Chancellor had obtained the requisite legislative power in England similar steps should be taken for Scotland and Ireland. Meanwhile, in the absence of any legislative powers, effect has been given to a limited extent to the recommendations made by the Committee of last year, because, in appointing new officers, the principle laid down in the Order in Council of 15 August 1890 has been applied.

VOTE 21.—PRISONS, IRELAND.

Purchase of Land: Date of Charge.

43. In his paragraph 3, the Comptroller and Auditor General adverts to a case similar to that already noticed in reference to the Scotch Prisons, and states that it is contrary to the principles of sound financial

accounting to introduce as final charges in an Appropriation Account sums in respect of the purchase of property for the conveyance of which the deeds have not been completed before the close of the financial year. He adheres to this view after considering the Treasury explanation to the effect that the payment was really an instalment, and was a final payment in the sense that the money was paid and a receipt given. Your Committee would support the view of the Comptroller and Auditor General, especially as possession was obtained neither of the property nor of the title deeds within the year.

My Lords take due note of the Comptroller and Auditor General's remarks, endorsed by the Committee in paragraph 43, as to the charge of purchase moneys of certain property; and they concur with him so far that they think that the introduction as final charges in an appropriation account of sums other than those that are substantially final payments is to be deprecated on general grounds as contrary to the principles of sound finance. But cases may and do arise in which exception to this rule may be legitimate and even expedient; that is, when the payment is an instalment, and secures a legal title to or legal rights over property without any risk of a loss of public money. My Lords submit that the circumstances connected with the transaction now under consideration are such that no disallowance need be made in respect of it.

CLASS IV., VOTE 10.—NATIONAL GALLERY FOR SCOTLAND.

Audit of Grant in Aid.

54. In paragraph 1 the Comptroller and Auditor General reports that for the expenditure under this Vote no information has been afforded to him which would enable him to ascertain whether the money granted has been expended or has been appropriated in accordance with the Subheads shown in the Estimates, in other words, to comply with the terms of the Exchequer and Audit Act. The Treasury explain that owing to the peculiar circumstances connected with this Vote, it has been held to be a Grant in Aid, and therefore exempt from the ordinary process of auditing by the Comptroller and Auditor General. They offer, however, to furnish the Comptroller and Auditor General with the result of the audit of these accounts by the Auditor of the Court of Sessions, whose report is submitted to the Secretary for Scotland. The Comptroller and Auditor General, however, points out that, under that view of the case, he would wish to be relieved from responsibility in connexion with this audit, which is virtually conducted by the Secretary for Scotland, and which he could not accept as relieving him of his functions as Auditor General. If this expenditure be a Grant in Aid not falling within his purview, well and good; but if it be not, then he cannot accept any other audit save his own. In reference to this, your Committee learn that the Treasury adhere to their view that this is a Grant in Aid, and therefore exempt from audit by the Comptroller and Auditor General, though they are quite prepared to see this audit instituted if it be authoritatively deemed necessary.

55. Your Committee find, in regard to this subject, that down to almost 1888 there was a fixed grant made to Scotland in the terms of the Treaty of Union, namely, £2,000* a year, with £100 a year extra for the Torrie Collection. The old form was that it was the amount required to pay the annuity to the Board of Trustees of Manufactures in Scotland. So far no question of audit by the Comptroller and

* *Note.*—The annuity of £2,000 is now charged on the Consolidated Fund under 6 Edw. VII., c. 50, s. 8.

Auditor General appears to have arisen, the amount being regarded as one of those Grants in Aid which are exempt from this audit. The form set forth " in discharge of equivalents under the Treaty of Union " to be applied to the maintenance of the National Gallery, School of " Art, and Museum of Antiquities, Scotland, and for exhibiting the " Torrie Collection of Works of Art and other purposes." This amount of £2,100 has been raised on various occasions to nearly double that amount, and grants have been made with appropriations to more than one Subhead, and since then the Comptroller and Auditor General has raised the question of audit: in other words, so long as the amount was entered in the Estimates to meet the equivalents granted under the Treaty of Union it did not come under audit, but when the amount was raised and appeared as an ordinary Grant, then it came under the provisions of the Audit Act. On the whole the Comptroller and Auditor General now contends that the amount taken under Subhead A. may be taken as a Grant in Aid, pure and simple, for which the audit need not be insisted upon, but with regard to the other sums, which are Grants with Appropriations, these details must be followed, that is, there must be audit. Your Committee concur in that contention, especially as they find from precedents that all Grants in Aid are not exempt from audit, and that some Grants in England, analogous to these, are audited. But with this view it would be necessary that the Treasury and the Secretary for Scotland should enter into arrangements with the Board of Manufactures, which is an independent body. Your Committee consider that steps should be taken in this direction.

Sir George Trevelyan will observe that the Committee consider that there should be an audit by the Comptroller and Auditor General of Subheads B. and C. of the vote, leaving unaltered the existing arrangements as regards the General Grant in Aid (Subhead A.), which includes the annuity of £2,100 payable under the Treaty of Union. Their Lordships request that the Secretary for Scotland will be so good as to represent to the Board of Manufactures the view of the Public Accounts Committee, and to consult that Board as to whether they see their way to complying with the Committee's recommendation.

Class V., Vote 1.—Diplomatic and Consular Services.

62. In paragraph 16, the Comptroller and Auditor General remarks that the fees in Nyassaland have been appropriated towards the cost of building a court-house at Blantyre, instead of being brought in aid of the Consular Vote. This was done, as your Committee learn, with the sanction of the Treasury, as a special case. This matter was noticed by the Public Accounts Committee of 1893. The Comptroller and Auditor General still urges the question as to whether these fees were properly diverted; and his doubts appear to be shared by the Treasury also in their letter printed at page 436. (H.C. 510/94). Your Committee consider that the course adopted was not strictly correct. The Treasury explain that the difficulties (mentioned in their letter of 24 February 1893) are great in respect to maintaining financial control over the Commissioner in regard to the initiation of expenditure and the audit of his accounts. This case may be admitted to be one of a very exceptional character with which the Treasury had to deal.

FOURTH REPORT, 1894. H.C. 249.

Treasury Minutes, 15 December and 19 and 18 October 1894.

CIVIL SERVICES.

CLASS VI., VOTE 1.—SUPERANNUATION AND RETIRED ALLOWANCES.

Compassionate Allowances.

4. In reference to Compassionate Allowances, the attention of your Committee has been drawn to the question as to how far the power of granting these, as exercised by the Treasury, is statutory or discretionary. Your Committee bear in mind that the Compassionate Allowances granted to the person injured in the case of an injury, or to the relatives of a person who has been killed by an injury, are under a Treasury Warrant of September 1887, which was drawn under powers conferred by the Superannuation Act of 1887. The amount, however, is fixed not by statute, but by the Treasury itself.

Compassionate Fund.

5. In reference, however, to grants from the Compassionate Fund, under Subhead F. of this Vote, the Comptroller and Auditor General states that the Treasury will call the attention of Parliament to the fact that these grants are made by the Treasury at their discretion, and that they are not paid under statutory authority, by means of words to be added to future Estimates. Your Committee learn that this has been done in the Estimates for 1894–95.

CLASS VII., VOTE 2.—MISCELLANEOUS EXPENSES.

Search Fees in Lyon Office.

7. In reference to paragaph 3 of the Comptroller and Auditor General's Report, your Committee have considered the traditional rule of exemptions from search fees in the Lyon Office. There appears to be no doubt that the Act does expressly impose these search fees, and therefore the exemption of the searchers from paying these fees is very questionable. If the practice should be continued, it will require fresh legislation. The Treasury are inquiring, and until these inquiries are complete, the Comptroller and Auditor General will not be able to make a positive report; thus the matter is still in suspense.

T.M. 15 December 1894.—The Act, 30 Vict. c. 17, prescribes the payment into the Exchequer of certain fees and dues in connexion with searches in the Lyon Office. As no discretionary power of remitting these statutory fees has been conferred upon the Treasury by Parliament, payment must be made in future in accordance with the Act, and the traditional exemptions must cease.

Remission of Stamp Duty and Fees on Appointments, &c.

9. As to the remission of fees by direction of the Treasury (*see* H.C. 510/94, page 504), your Committee observe that a Vote has to be obtained from Parliament. If there are any special circumstances which seem to justify the remission of the fees, the Treasury would pay the fees themselves out of the Civil Contingencies Fund, and then ask Parliament to repay the sum to that Fund. Thus Parliament would have cognizance of it when considering the Vote for repayments to the Fund.*

* NOTE.—The payments from the Civil Contingencies Fund in these cases are in respect of stamp duty only; the Crown Office and Home Office fees remitted are not paid either by the receivers of appointments and honours or by the Treasury, and the remission simply reduces the receipts available as Appropriations in Aid.

Revenue Departments.

Vote 2.—Inland Revenue.

Remission of Stamp Duties.

20. Adverting to certain exemptions of Stamp Duties on Drawbacks, the Comptroller and Auditor General has occasion to point out that no general power has been conferred on the Treasury to remit duties that are imposed by statute, and if any practice of exempting is to be maintained, the sanction of an Act of Parliament would be required. The Treasury reply that though the practice has existed since 1848, still they do not claim to have the power of remitting; and that as an alternative to fresh legisation, it has been deemed preferable to withdraw the exemptions, so that no question will arise in future.

Vote 5.—Post Office Telegraphs.

Stores: Stock in hand.

25. The Comptroller and Auditor General suggests that there should be a footnote added, showing the value of the stock in hand at the end of the financial year, inasmuch as such notes have for many years been given in the case of the Army and Navy Accounts, and their adoption by the Post Office would be attended with considerable advantage. Your Committee consider that this should be carried out.

To the Postmaster-General.

You will notice the recommendations of the Committee as regards . . . appending a footnote to the Telegraph Estimate showing the value of the stock in hand at the end of the financial year, on analogy with the practice which obtains in the case of Army and Navy Accounts.

General Remarks.

Stocktaking in all Departments.

31. Your Committee offer some observations on a subject which has been repeatedly mentioned during their sittings, and touched upon several times in the evidence, namely, that of stocktaking. They have taken some special evidence on this subject.

32. It appears that some time ago the stocktaking of the stores in the great Departments, War Office and Admiralty, was distinctly defective. Before the Public Accounts Committee the representative of the War Office was asked whether he could give a rough estimate of the value of the stores at Woolwich, and he could not. As another instance, about the same time, some £6,000 worth of coal was discovered at Portsmouth, of which the authorities had no cognizance because it was not on their books. It is believed that, on research, other instances to a similar effect could be adduced. At the same time the Comptroller and Auditor General adds that mainly through the action of the Public Accounts Committee, and the Exchequer and Audit Department, we have now got valuation accounts which we never had before, and we now know a great deal more about the value of the stores than we ever did previously. All this he holds to be important because these valuations are put into the Appropriation Accounts, showing, for example, that there is so much at Woolwich and so much elsewhere; and that they are not mere guesswork, but are based upon the rate books. These, too, are tested in the Audit Department by the taking of instances to see that these rates are accurately valued into the Stock Accounts. The Audit Department does not indeed guarantee that the whole has been thus accurately valued, but it does test all this by taking instances. It is only within the last ten years that this store audit has been undertaken. He

evidently thinks that good results have flowed from the Treasury Minute of 15 November 1886, which imposed on him the duty of store audit.

33. Nevertheless, at the present moment the Comptroller and Auditor General does not consider that the stocktaking as now conducted in the great Departments, however much it may have been improved, is perfectly satisfactory. It does, he thinks, still lack something, and still further improvements might be made. He has indicated before now in his Reports that the Departments have hardly yet realized to the full their responsibility in the matter, and that more might possibly be done. A very great deal has been effected in the way of bringing up and levelling up the control over cash, and if the control over stores is not quite up to the same form, the action of the Audit Department with the support of the Public Accounts Committee will have a considerable effect on the stores also.

34. On the whole the Comptroller and Auditor General informs your Committee that, though he has in his Reports not infrequently raised questions connected with deficiencies brought out by the stocktaking, still he has no reason to doubt the trustworthiness or accuracy of the stocktaking as such.

35. On the other hand, he is not sure that the stocktaking as now conducted in the Departments is all that it might be, or all that it should be. On the contrary, he apprehends that various improvements in detail are both desirable and practicable; but such arrangements would require exact consideration in concert with the departmental authorities themselves, and your Committee consider that under the existing Treasury Minute this might be now undertaken with advantage. He thinks that there should be an investigation into the steps actually taken in the various branches of the Admiralty and the War Office. He adds that the whole system had never yet been fully explained to Parliament.

36. As regards the existing system, your Committee observe that there is now a stocktaking continuously going on, of a certain kind, in each Store branch, and that is checked by an independent test stocktaking by officers of the Department. In the War Department this stocktaking is under the War Office direct, and independent of the Departments concerned. In the Admiralty there is a difference of system, namely, this, that the Director of Stores sends down from London to the Stores two officers of his own who perform a special stocktaking, irrespectively of the general stocktaking which goes on continuously in the Dockyards. These officers belong to the Store branch itself, though they are of course independent of the storehousemen. Still, they are officers of the Director of Stores, and in that sense he is taking his own stock, which arrangement is open to some objection. Your Committee presume that at least there would be no difficulty in assimilating the practice of the Admiralty in this respect to that of the War Office, and that the Admiralty, instead of the Director of Stores, could send down the officers from London.

37. It may here be added that some analogy is afforded by the existing practice in respect of cash. In 1872 the Treasury held that the checking of balances is an administrative duty not pertaining to the audit. The Public Accounts Committee concurred in this view. Accordingly the cash balances in the hands of officers are not verified by the Audit Department.

38. Respecting the functions of the Comptroller and Auditor General, your Committee observe that the Exchequer and Audit Act is silent on the subject of stores and stock. Therefore, stocktaking is not among the duties imposed on him by law, and would not be covered by the Act.

On the other hand, no fresh legislation would be required for it. It could, however, be undertaken under administrative authority from the Treasury.

39. At present the Comptroller and Auditor General considers himself forbidden to take stock, and debarred therefrom by the very Minute of the Treasury which imposes on him the duty of the Store audit. Nevertheless, on more than one occasion, either for examining the stock valuation or for other special reason, he has personally to some extent done some stocktaking in the Dockyards. Such action on his part has, however, been rare, and did not amount to regular stocktaking. He held that his official position justified this individual action of his for a specific and limited purpose.

40. Upon the subject, as a whole, your Committee observe that the stocktaking now continuously going on in the Departments must be maintained with the unimpaired responsibility of the departmental officers. If it were suggested that another or second stocktaking should be undertaken independently of the Departments by the Treasury or the Comptroller and Auditor General, then they observe that such an operation would be too large and costly to be practically contemplated under present circumstances.

41. But it is admittedly practicable (apart from any question of expediency) to have a test or sample stocktaking, with a very limited though expert establishment, and consequently at a slight cost, independent of the Department, and directly under the Treasury or the Comptroller and Auditor General. Your Committee have particularly consulted the Comptroller and Auditor General and the Treasury on the expediency of such a project, and the opinion of both these authorities is decidedly against it.

42. The Comptroller and Auditor General says that first of all there is the expense; that, however, might be regarded as inconsiderable—probably £10,000 a year—if any advantage were to be gained in so great a matter as that of the Stores. But he goes on to say that a weakening of departmental responsibility would thereby be caused, and a very serious responsibility would be transferred to the Audit Department, fully weighted already with its cash duties. He holds that there is a tendency to magnify the value of an outside check. Moreover, a sample is, he thinks, too small a thing to be useful when we are dealing with such vast stocks as those under consideration. If anything should turn out wrong in the stock, then the departmental authorities might try to cast the onus on the Comptroller and Auditor General, and to ask why he did not find it out, although he had only a small establishment, able to apply a test once in, say, five years. The matter is one of opinion, and your Committee cannot but give attention to the strongly expressed view of the Comptroller and Auditor General as a Parliamentary officer.

43. Further, your Committee learn that the Treasury consider the objection as one of principle. They think that the immediate effect would be to commit to the Comptroller and Auditor General an indefinite part of one of the functions of administration which properly belong not to an auditor, but to the chief of the administering and spending Departments; and that if the proposed test stocktaking be done upon a small scale (and it is suggested on a comparatively small scale only), then it would be practically useless, having regard to the enormous field and infinite variety of stock to be taken in the Departments. Further, the Treasury appear to apprehend that after the introduction of such a measure, there might arise various complications in the future, into which your Committee need not now enter.

44. On the other hand the Treasury recognize fully that the reports of all stocktaking officers should be open to the Comptroller and Auditor General and his officers. He can then comment freely on those reports, criticize the regulations under which they are made, and express his opinion as to how far those regulations are fitted for their purpose, and have been observed.

45. After considering the objections thus urged by the two authorities principally concerned, your Committee do not feel able to recommend an independent test stocktaking.

46. But in several passages of the evidence there occurs a suggestion which your Committee think may be utilized with advantage; it amounts to this, that the Comptroller and Auditor General should be empowered by the Treasury to cause a special stocktaking to be performed in any case where, from any suspicion or apprehension of error, or other cause, he may deem such a measure to be desirable or necessary. According to this he would have power to require that the stock should be taken in the presence of himself or his officer. He would of course be the sole judge as to the case or cases in which this power should be exercised, and of the reasons by which such exercise would be justified. As a Parliamentary officer he could be trusted not to exceed or abuse such authority, but on the other hand to render it effective and fruitful in result. In the instance or instances that might thus be affected the check would be absolute; but further the knowledge that such a power resided in the Audit Department would ensure the utmost carefulness on the part of the departmental authorities in having their stores accurately reported and valued, and also in making their stocktaking as complete as possible. Your Committee believe that this, so far as it goes, would be a step in advance. The hands of the Comptroller and Auditor General would thus be strengthened without any undue responsibility being cast upon him, and without the responsibility of the departmental officers being impaired. Your Committee understand that neither the Treasury nor the Comptroller and Auditor General have any objection to this procedure, but on the contrary anticipate advantage from it. For this purpose it will be necessary that Treasury authority should be conveyed to all concerned.

T.M. 19 *October* 1894—*My Lords read paragraphs* 31 *to* 46 *of the Fourth Report . . . upon the verification of balances of Public Stores in the Admiralty and War Department, and by implication in other Public Departments as well.*

The Conclusions of the Committee.

The attention of the Committee had been directed by various circumstances, alluded to in paragraphs 22 *and* 99 *of their Second Report, to the importance of securing a periodical test verification of stock by officers independent of, and unconnected with, not merely the actual keepers of the stock, but also the officers to whom those keepers are directly responsible, and who might possibly be under some temptation to pass over the shortcomings of their subordinates. They accordingly examined the Comptroller and Auditor General upon the following questions, viz.:—*

(1) *Whether there is any need for such an independent stocktaking, subject to his authority only.*

(2) *Whether it ought to be associated with the existing test audit of Store Accounts under the Treasury Minute of* 15 *November* 1886.

(3) *Whether, if a complete independent stocktaking under the Comptroller and Auditor General be deemed impracticable, it*

would be desirable that he should employ a small expert staff at a limited expense, for a proportionately restricted sample or test stocktaking.

Guided by the evidence taken by them, the Committee seem to have arrived at the following conclusions on the above questions:—

(1) *That although improvements might be introduced into the methods of stocktaking existing in the Departments, with a view to greater independence and efficiency, it is inexpedient on grounds of expense and of administrative regularity to impose the duty of stocktaking on the Comptroller and Auditor General.*

(2) *That such a step would be incompatible with the Treasury Minute of 15 November 1886.*

(3) *That there is a consensus of opinion against the employment by the Comptroller and Auditor General of even a small expert branch to test stocktaking and report the results to him, but that it should be open to the Comptroller and Auditor General, when he thinks fit, to call upon the proper officers of a Department to take stock of any particular articles in his presence or that of his own officers.*

My Lords concur in these conclusions, and will give a brief statement of the past action of this Department, and their present view, in regard to a test audit of store accounts and to the duty of stocktaking.

The Policy of Parliament.

In paragraph 38 of their Fourth Report the Committee observe, respecting the functions of the Comptroller and Auditor General, that the Exchequer and Audit Departments Act " is silent on the subject of stores and stock." This is not quite correct, because section 40 of that Act lays down that "in all cases where the Comptroller and Auditor " General shall be required by the Treasury to examine and audit the " accounts of the receipt, expenditure, sale, transfer, or delivery of any " . . . . provisions or stores, the property of Her Majesty," a certain procedure shall be followed. Parliament therefore looked forward in 1866 to some form of store accounts audit by the Comptroller and Auditor General, but thought fit to leave it to the Treasury to determine what that form should be, and how far it should extend. Consistently with the same policy, Parliament, in the Army and Navy Audit Act, 1889, left it to the Treasury to determine not only the form of the Manufacturing and Shipbuilding Accounts, which are so closely connected with Store Accounts, but also the manner in which the Comptroller and Auditor General is to examine them.*

The Action of the Treasury.

For many years after the passing of the Act of 1866, the Comptroller and Auditor General gave no examination to store vouchers beyond what was necessary to justify the cash accounts, as was explained to the Public Accounts Committee of 1882 (Q. 118).

In 1884 a report by the Treasury Officers of Accounts, dated 31 October 1883, was communicated to the Committee, giving reasons why an audit of store accounts by the Comptroller and Auditor General must practically of necessity be restricted to a form of local test audit [see pp. 145–7].

In 1886 the Comptroller and Auditor General, in his Report on the Army Appropriation Account for 1884–85, expressed his views on the

* This section was repealed in 1921, and the functions of the Comptroller and Auditor General in relation to store accounts were defined by section 4 of the Act 11 & 12, Geo. V, c. 52, without laying upon him the duty of stocktaking.

value of an "external test audit of store accounts." These views met with the concurrence of the Treasury, and the Minute of 15 November 1886, [see p. 187] *was accordingly issued, under which the test audit is now conducted, in regard to Army, Navy, and various Civil Store Accounts. That Minute restricts the functions of the Comptroller and Auditor General to ascertaining and reporting whether existing regulations appear calculated to secure within the Departments an efficient control over the receipt and disposal of stores, and whether the regulations laid down are duly enforced; and with regard to the verification of balances of stores, it directs that "the regulations of the Departments "should provide for periodical stocktaking of all stores in charge, under "conditions affording a sufficient guarantee of the existence of the "certified balances; that is to say, the stock should be taken and "certified by Boards of Survey, consisting of one or more responsible "officers* wholly independent of the storekeeping branch, *in addition to "the storekeeper or his representative.* It will not be the duty of the "Comptroller and Auditor General at any time to take part in these "surveys of stocks. *The duly certified statements of the properly "constituted Boards of Survey will be accepted by the Comptroller and "Auditor General, for the purpose of comparison with the balances of "stock remaining on charge as appearing by the stock ledgers; subject, "of course, to any observations which the Comptroller and Auditor "General may see fit to make in regard to the apparent efficiency or "otherwise of the arrangements for stocktaking."*

Messrs. Waterhouse and Mills, in their Report of 27 May 1889 *upon the Dockyard Expense and Store Accounts presented to the Public Accounts Committee of that year, remark that the above "course "is in accordance with the practice in regard to the audit of the store "accounts of commercial concerns"* [see p.243]; *and in the Treasury Minute of 2 July* 1889 *on that Report, the following passage occurs, regarding the verification of balances of stock, viz.:—"Messrs. Water-"house and Mills concur with this Department in holding that this task "should be always undertaken by a representative of the storekeeper and "some quite independent officer, but should not be taken part in by the "Comptroller and Auditor General. They also suggest the occasional "visits of officers from the Department of the Director of Stores in "London for the purpose of testing stocks of particular articles"* [see p. 246].

Since 1886 *the Treasury has sanctioned various arrangements calculated to improve the Store account keeping and stocktaking of the Departments responsible for the stores; but my Lords need only mention the check afforded by the comparison between independent records of quantities and values, established for naval stores in* 1889, *a form of Stock Valuation Account which is adopted by the Admiralty, and, with some modification, by the Commissioners of National Education in Ireland.*

The Governing Principle.

The exclusion of stocktaking from the duties of the Comptroller and Auditor General rests on the fact that stocktaking is an administrative duty belonging to the Department responsible for the stores, and comparable with the corresponding duty of verifying cash balances. In the 50th paragraph of their Second Report the Public Accounts Committee of 1872 *suggested that the function of verifying cash balances "might well have been assigned by law to the Comptroller and Auditor General." But the Treasury in a Minute of 14 August* 1872 *stated that "such a step would have been inexpedient. It is most important "that the distinction between administration and audit should be clearly*

" defined. The auditor tests results, and when once the machinery of " accounting has been settled, he should wait for the result before he " interferes. When the time for his interference arrives, that is to say " as soon as the accounts are delivered to him, he should have " uncontrolled power to make any inquiry that he may consider " necessary but he should be in no sense accessory to the facts of which " he will be the judge." [see p. 30].

It seems to my Lords that the foregoing statement regarding the verification of cash balances is equally applicable to stocktaking. The reports of all stocktaking officers should be open to the Comptroller and Auditor General and his officers, and he should have an absolutely free voice in criticizing them, the rules under which they are taken, and the manner in which those rules are carried out. But he should do nothing that may tend to transfer the responsibility for stocktaking from the administering Department to his own shoulders. Therefore he should take no action whatever which might be held to justify the inference that he in any degree accepted such responsibility.

The Department that administers a Store Service is responsible for the proper stores being procured, in point of character, cost, quality, and quantity, for their safe custody pending use, and for their being used for the right objects, so long as they remain within its jurisdiction. It does not matter to the public whether the stores, at any given time, are lying in a warehouse under the name of " Stock," or are scattered over yards, wharves, and shops, in railway trucks or barges, in barracks, forts, or camps, by the ship's side, or at sea, so long as the right stores have been economically bought, are forthcoming in good order when wanted, and are being economically used. It would be simply injurious to the public interest if any other Department were to intervene, and assume whole or joint responsibility at some particular mesh, and no other, in the web of administration. From first to last, the Department that provides, keeps, and supplies or uses the stores ought to answer for them, and for what is done with them, so long as they remain in its hands, and for this purpose must keep accounts, and take stock of them.

But criticism of methods of administration may be highly beneficial, without impairing the responsibility of the administrator. The Comptroller and Auditor General in the conduct of his test audit of store accounts has many opportunities of observing the effects and defects of particular methods in their bearing on the receipt, custody, and issue of stores; and in several cases already his comments or suggestions have led to improvements of practice.

The Present Recommendation.

The recommendation of the Committee, that the Comptroller and Auditor General should have power, when he sees sufficient reason, to call upon the administering Department to take stock of any particular articles, in his presence or that of his officers, commends itself to my Lords as a means of strengthening the hands of the Comptroller and Auditor General as critic, without trenching upon the proper function of the Department as stocktaker.

The arrangement, of course, cannot work successfully without the exercise of much discretion, as regards the extent and occasion of his demands, on the part of the Comptroller and Auditor General, nor without the ready co-operation of the chiefs of the Departments concerned. My Lords, from past experience, however, feel assured that neither of those requisites will be wanting.

The Committee had specially in view the stocktaking of the Admiralty and the War Department. But my Lords are of opinion

that the same arrangements might be extended to all Civil Departments whose store accounts are subjected by the Comptroller and Auditor General to a test audit.

It will be observed that in paragraph 36 *the Committee express approval of the arrangement made in the War Department for a test stocktaking by officers responsible to the Secretary of State but independent of the storekeeping branch, as required by the Treasury Minute of* 15 *November* 1886, *and suggest that a corresponding arrangement might be adopted by the Admiralty. My Lords concur in this suggestion, and would remark that it is already the duty of the Expense Accounts Branch of the Admiralty, not only to conduct periodical comparisons between the quantity and value ledgers, but, in the event of unsatisfactory circumstances being disclosed thereby, to confer with the storekeeping branch as to the desirability of immediately taking stock in the presence of representatives of both branches. In the Expense Accounts Branch, therefore, the Board of Admiralty seem to have at their disposal the means of carrying out the suggestion of the Committee.*

Let a copy of this Minute be sent to the Admiralty, War Department, Home Office (for English Prisons and Broadmoor), Secretary for Scotland (for Scottish Prisons and Fishery Board), Chief Secretary for Ireland (for Irish Prisons, Dundrum, Royal Irish Constabulary, and Dublin Police), Board of Agriculture (for Ordnance Survey), Board of Trade (for Harbours of Refuge and Lighthouses), Office of Works, England, Commissioners of Public Works, Ireland, Commissioners of Customs, Commissioners of Inland Revenue, Postmaster General, and Controller of the Stationery Office, with an invitation that they will co-operate in the adoption of the recommendation of the Committee of Public Accounts respecting "Stocktaking in all Departments," as set forth therein.

Let a copy be also sent to the Comptroller and Auditor General for his information.

THE POWER OF THE TREASURY TO SANCTION DEVIATIONS FROM THE DETAILS OF AN ESTIMATE, WITHIN THE AGGREGATE TOTAL OF A VOTE.

47. Your Committee find that this power of deviation has not been explicitly given by Parliament, but it necessarily follows upon the general terms of the resolutions granting each Vote to the Sovereign, which terms are subsequently ratified by the Appropriation Act. If Parliament grants to the Crown a certain sum for a certain service in a given year, without any more definite appropriation in the terms of the grant, it is legally competent to the executive to expend that sum, at discretion, in the year, upon that service. The details appended to the estimate on which the Vote is taken show what are the current services and what are the expected services, at the time at which the estimate is prepared, and afford subsequently a means of comparison by the Comptroller and Auditor General between forecast and actual results; but those details are not so binding on the Executive that they cannot be varied when the public interest urgently requires it, within the limits of the total Vote.

48. Your Committee understand that the good faith of Government is pledged by the details of an estimate on the strength of which Parliament grants the Vote. They must represent actual facts and the real intention of Government. But they do not preclude Government from making such changes as may be requisite to meet the varying necessities of the time.

49. According to constitutional practice, the Queen, by Royal Order, places the total grant at the disposal of the Treasury, and the Treasury entrusts its expenditure to the Department immediately responsible for the service, and requires that Department in the conduct of such expenditure to abide by the leading features of the Estimate, or by the exact details, according to the nature of the service, unless Treasury sanction be obtained for a deviation therefrom. Parliamentary appropriation is confined to the restriction of the expenditure of the total grant to "the four corners of the Vote," and to a given time.

50. Your Committee find also that the power of deviation has been exercised ever since Estimates have been presented in detail; and the occasions for its exercise necessarily grew as the organization of the Estimates became more precise and detail increased. The Treasury control over its exercise has been supported and extended by the Public Accounts Committee since their origin as a standing Committee in 1862.

51. Your Committee observe that indirect evidence of Parliamentary recognition of the necessity of Treasury sanction for the exercise of the power, and therefore of the existence of the power itself, is afforded by section 27 of the Exchequer and Audit Departments Act, 1866, which requires the Comptroller and Auditor General, at the request of the Treasury, to ascertain whether all or any expenditure has received Treasury sanction, and to report it for disallowance if such sanction cannot be produced.

52. Your Committee do not find that the terms of section 4 of the Appropriation Act (under which the Treasury sanctions the use of surpluses on some Army or Navy Votes to meet excesses on other such Votes) apply also to deviations from the details of an Estimate and excesses on Subheads of an Estimate within the limits of a Vote. The origin and nature of this section were explained in a memorandum by the present Assistant Comptroller and Auditor, which is printed in the Appendix to the Second Report of the Public Accounts Committee of 1879, p. 57. Its object was to regulate excesses on Army and Navy Votes, and it leaves the pre-existent and independent power of deviation within the limits of a Vote untouched. If all other evidence of this were wanting, it would be sufficiently proved by the fact that the section relates to Army and Navy Services only, whilst the power of sanctioning deviations from the details of the Estimate within the limits of the total Vote has been exercised by the Treasury from the first in regard to Civil Services, as much as in regard to Naval and Military.

T.M. 18 *October* 1894.—*Their Lordships entirely concur . . .*

The famous Churchward Mail Contract case affords striking confirmation of the doctrine that a Vote is legally applicable to any service covered by the terms of the Resolution granting the Vote, even though no mention of that service be made in the details of the Estimate. In the case referred to Her Majesty's Government had made a mail contract, in 1859, *which was subsequently condemned by a Select Committee, and by the House of Commons, after a debate and division. Nevertheless, the Law Officers of the Crown held that the contractor could require payment under his contract out of any general Vote for Packet Service, even though no specific provision was made for the payment in the details of the Estimate. In order, therefore, to bar the contractor's claim, a distinct prohibition to use the Vote for payments to Mr. Churchward under the obnoxious contract was, by the advice of the Law Officers, inserted in the Annual Resolution of the Post Office Packet Service Vote, and remained in it from* 1868 *until* 1875, *inclusive.*

EVIDENCES of the Recognition by the Public Accounts Committee, in past Years, of the Power of the Treasury to sanction Deviations from the Estimate, within the Limits of a Total Vote (Appendix No. 2 to Fourth Report, 1894).

(I.)

It appears from the evidence given before the Public Accounts Committee of 1862, by the then Chancellor of the Exchequer (Mr. Gladstone), that it was a moot question whether Treasury sanction should be held to be necessary for all deviations from the programme within each Naval Vote.

Mr. Gladstone stated as follows (Q. 1558):—

"I conceive it to be clear that in the case of a new work" (the Admiralty) "are bound to come to the Treasury for their sanction; "but with regard to the question of the transfer of surpluses to meet "deficiencies under the different heads of a Vote, I confess that I "have not entirely made up my own mind."

As regards items on other than the Works Vote, Mr. Gladstone stated (Q. 1559): "The claim of the Admiralty is distinct upon the "point that they are not bound to go to the Treasury unless in case "of an excess over the total of a Vote. I am not prepared to state "that there is not some evidence to support that claim, but I do not "think there is in such an arrangement a proper security for the "public interests; and I think that it would have been the duty of "the Cabinet to consider, and it may still be the duty of the "Cabinet to consider, how far the principle of the subdivision of "Votes should be recognized with regard to the Treasury control."

The Committee did not express any opinion on the point, but their recommendations of the year led to an alteration in the form of the Annual Appropriation Act [*Second Report*, 1862, *see p.* 14]. The covering sanction of Parliament was thenceforth required for the application of surpluses to meet deficits on Votes; and in order that Parliament might be sufficiently informed before giving such sanction, the Treasury directed the War Office and Admiralty to prepare and present to Parliament the detailed accounts, now attached to the Appropriation Accounts, exhibiting the estimated and actual expenditure under the subheads of the Votes, the surpluses or deficits on the Subheads, and the causes of variation.

The two Departments were, at the same time, directed to append copies of the correspondence in which Treasury sanction had been obtained "to defray expenditure not provided for in the Estimates."

(II.)

Questions as to the authority for deviations from the estimated programme, within Civil Votes, did not arise until after the passing of the Exchequer and Audit Departments Act, 1866.

Several cases of expenditure, which had not been specially provided for in the detailed Estimates, were brought before the Public Accounts Committee of 1870 in the Comptroller and Auditor General's Reports on the Appropriation Accounts of the Civil Grants for the year 1868–69, viz., the year in which the whole of those accounts were for the first time reported on, and which the Committee regarded as "marking the commencement of a new era in our financial history." (First Report, 1870, par. 2.)

(1) Under Class I., Vote 21 (Sheriff Court Houses (Scotland)), a new Subhead had been opened for expenses incurred on account of a Sheriff Court House at Inverness, which had not been provided for in the Estimate.

The Public Accounts Committee reported as follows (First Report 1870, par. 7):—

"In this case there was an expenditure on a work at a place not "named in the Estimate; but it is covered by the terms of the "Appropriation Act."

"Your Committee, however, think that in all such cases the "special reason for executing such a work in the financial year "should be explained in a note to the account."

(2) Under Class IV., Vote 10 (University of London), certain costs had been charged against the Subhead for "incidental expenses," under Treasury sanction; but the Comptroller and Auditor General reported that they were not properly chargeable to the Grant, because it did not seem to have been the intention of the House of Commons to make provision for such expenses when the Vote was passed.

The Treasury held that the intent of Parliament was to be judged by the Votes, and not by the Subheads; and that if an expenditure came within the terms of a given Parliamentary Vote, even though that special expenditure could not have been in the mind of Parliament, because the occasion for it arose, for the first time, after the Vote was granted, nevertheless the Treasury was entitled to sanction it, and to charge it to the Vote, and even to create a new Subhead of the Vote to which to carry the charge.

The Report was as follows (First Report 1870, par. 14):—

"Your Committee are of opinion that the Comptroller and Auditor "General was entirely right in reporting upon the charge . . . "such not being 'a purpose for which such Grant was intended to "'provide'; but inasmuch as the expenditure is covered by the "Appropriation Act, they are unable to say that there is any technical "incorrectness in charging the expenditure against the Vote."

(3) Under Class V., Vote 8 (Grants in aid of Expenditure in certain Colonies), provision had, according to a detailed Subhead of the Estimate, been made for repairing damages occasioned by a hurricane at the Virgin Islands. The Comptroller and Auditor General objected to part of the charge included in the Appropriation Account, on the grounds that the expenditure had been incurred in making good the revenue of the Islands, rather than in repairing damages.

The Comptroller and Auditor General (Sir W. Dunbar) and the Assistant Comptroller and Auditor (Mr., afterwards Sir W. Anderson) claimed that it was necessary to look to the Subheads to ascertain the intention of Parliament; and in order to ascertain whether the money expended had been applied to the purpose or purposes for which the Grant was intended to provide, as directed by the 27th section of the Exchequer and Audit Departments Act.

The Assistant Comptroller and Auditor, however, acknowledged that the Treasury had the power to exceed upon the Subheads, to create a new Subhead, and to sanction expenditure which seemed to be justified by the general Vote.

The Committee reported as follows (First Report, 1870, par. 17):—

"Your Committee are of opinion that" (the expenditure) "is "properly chargeable to the Vote. They wish it, however, to be "understood that it is, in their judgment, the duty of" (the Comptroller and Auditor General) "whenever . . . . he considers "that any money had been applied to any purpose other than "that for which the grant of Parliament was intended to provide, "specially to report thereupon, availing himself, in his discretion, "of any information given in the Estimate upon which the Vote "has been taken."

(III.)

In the Comptroller and Auditor General's Report on the Appropriation Account of the grant for Sheriff Court Houses, Scotland, 1870–71 (Class I., Vote 11), it was pointed out that expenditure had taken place at seven Court Houses not provided for in the Estimate.

The Committee expressed an opinion that the Comptroller and Auditor General had been justified in noticing the expenditure, and they added the following remark (Second Report, 1872, par. 15.):—

"Although there is a surplus on the whole Vote, and although "there is no dispute as to the authority of the Treasury, under

" these circumstances, to raise new Subheads, your Committee are of " opinion that the Treasury power has been invoked, in this instance, " to a larger extent than is expedient; and they hope that in future " years expenditure may take place more closely in accordance with " the programme as exhibited in the Votes."

Under Class IV., Vote 2 (Science and Art Department) the Comptroller and Auditor General called attention in the same year to a new Subhead of charge for the purchase of premises by the Royal Dublin Society, which represented part of an amount voted but not expended in the previous year; and he expressed an opinion that it would have been a more proper course to submit the sum for a re-vote.

In this case the Committee reported as follows (par. 41):—

" Your Committee agree . . . that the sum . . . should " have been the subject of estimate.

" Several instances have occurred . . . where it has been " urged in explanation of a new Subhead that the sum in question " had been voted but not spent in a previous year. It would seem, " however, that the true justification of applying savings to new " Subheads is to be sought for in the urgency of such requirement, " rather than in the fact that Parliament had voted the money, " possibly under different circumstances, in a previous year."

(IV.)

In the Report upon the Appropriation Account of the Vote for Prisons, England, 1882–83 (Class III., Vote 17), the Comptroller and Auditor General called attention to a charge for the purchase of land, which he considered to be hardly comprised in the terms of the heading of the Vote.

The Committee reported as follows (Second Report, 1884, par. 23):—

" Your Committee consider that by a liberal interpretation of the " term ' Expenses of the Commissioners,' it may be taken to include " necessary purchases of land to a moderate amount; but that if the " amount became serious the heading of the Vote should be " enlarged."

(V.)

In connexion with the Vote for Public Buildings, Ireland, 1883-84 (Class I., Vote 23), the Committee of 1885 took evidence on the subject of expenditure upon certain works which had not been contemplated when the Estimate was originally framed; and also on the subject of delays in obtaining Treasury sanction for part of the expenditure.

The Treasury expressed the opinion " that the sum granted for " public buildings is granted as a whole, and that, statutably, the " Treasury can apply it to a new building; but, at the same time, " that when the Treasury has placed before Parliament a list of new " works, it would not hold that it had a free right to apply money " to new works of any consequence, except under such urgent " circumstances as it would be prepared to justify before Parliament."

In the course of the discussion the Comptroller and Auditor General stated that he regarded it as his duty to call attention to excesses on Votes, and to mention every case in which the total on a Subhead had been exceeded. But, within the third part of the Estimate, he did not regard it as his duty to question any variation between the amount expended and the amount and purposes shown in the Estimates, provided the expenditure was within the four corners of the Vote; or to raise any question as to the commencement of new works not previously shown in the Estimates, provided that the works had Treasury sanction.

The Committee recommended that " special care should be taken " in the preparation of Estimates, when considerable latitude is " allowed in the application of the sum voted "; and thought " that " it would be desirable that the Comptroller and Auditor General

"should call attention to expenditure of the nature not contemplated "in the Estimates, and that the application made to, and the "consent given by, the Treasury, should be within reasonable "time."

(VI.)

On the Appropriation Account of the grant for Law Charges, &c., Ireland, 1886–87 (Class III., Vote 21), the Comptroller and Auditor General called attention to a case of expenditure of so unexpected a nature that no provision could have been made for it in the Estimate. Treasury sanction had been applied for and given, and the only defect, so far as the year's account was concerned, was that the Department concerned had not complied with Treasury direction, that the exceptional nature of the charge should be specially shown in a note to the Appropriation Account.

The Irish Government, however, had questioned the necessity for Treasury sanction in cases of the kind, and the Comptroller and Auditor General, after quoting the 27th section of the Exchequer and Audit Departments Act, 1866, reported that "it would appear "that under this section it is in the discretion of the Treasury to "require that all expenditure of a special nature charged in any "Appropriation Account should receive the sanction of . . . the "Treasury, who alone are vested with final powers of authoriza-"tion."

The Report of the Committee was as follows (Second Report, 1888, par. 23):—

"Your Committee do not think that it can be too much impressed upon Public Departments that whenever they incur expenditure of a special character for which provision has not been made in the Vote, or which does not strictly fall within the terms of the Vote or the description of its Subheads, they should represent the circumstances to the Treasury, with the view to obtaining the earliest possible sanction to it, even if, owing to some urgent cause, the sanction only amounts to a covering sanction."

(VII.)

The Committee of 1890 made a Special Report on the subject of certain rearrangements of the Estimates, by which the number of Votes was reduced.

They reported as follows:— . . .

"Your Committee hold that in every case where there is reason for maintaining Parliamentary control, to the extent of requiring that any excess over the money granted by Parliament for any particular object or service should be submitted to the House, provision should be made for that service, as heretofore, in a separate Vote."

"To substitute in these cases, for that Parliamentary control, a control of the Treasury, such as that Department now exercises over the application of money voted for one Subhead to the use of another, would be a great change. Treasury control may be most usefully exercised in regard to the Subheads of a Vote." [*Third Report*, 1890, *par.* 4, *see pp.* 251–2.]

Application of Surplus in one Subhead to meet Deficiences in another Subhead.

53. In several passages among the Minutes of Evidence reference is made to the application of a surplus under one Subhead to meet a deficiency under another Subhead within a Vote in the Civil Services, with Treasury sanction under existing rules and practice. On this a question has been raised as to whether the spending Departments have not sometimes obtained from Parliament more money than was needed, and then allotted the surplus thus accruing to another Subhead, or spent it on a new Subhead not contemplated when the Estimate was framed. On this your Committee are assured that neither do the spending Departments deliberately ask for, nor does the Treasury deliberately sanction, more money under any Subhead within a Vote than is anticipated to

be necessary when the Estimate is framed. The detailed information supplied to Parliament in support of the Estimate, though not actually binding on the Treasury, is yet as accurate as it can be made at the time of framing the Estimate. But it must frequently happen that a little more than was expected will come to be required under one Subhead and a little less under another, so that there will be surpluses and deficiencies on the Subheads generally. If then a surplus is not to be available to meet a deficiency within the Vote, the result would be, as your Committee are assured, that additional provision would be made under each Subhead in the original Estimates. Such a provision would place additional funds at the disposal of the spending Departments. And although in the end there might be a surplus on the whole Vote liable to be surrendered, yet there would be a temptation to spend rather than surrender. Thus the outcome of any restriction with regard to the present availability of surpluses on detailed items of Estimates would almost certainly be adverse to economy. On the other hand the exercise of the sanction of the Treasury will always be open to the criticism of the Public Accounts Committee.

Your Committee would add that if there were no powers to apply savings from one Subhead to meet excesses on another there would be a large increase in Supplementary Estimates.

T.M. 15 December 1894.—In paragraph 53 the Committee deal with the discretionary power of the Treasury to authorize the application of a surplus on one Subhead of a Vote to meet a deficiency on another Subhead of the same Vote. My Lords note that the Committee do not question such discretionary power, a restriction of which would almost certainly be adverse to economy, whilst largely increasing the number of Supplementary Estimates.

Special Subheads.

54. As regards new Subheads not contemplated in the original Estimates, your Committee observe that if the particular service be clearly a part of the service for which the Vote was taken, the Treasury sanction would be valid. But if there be any doubt on this point, if there be any question as to whether the particular service, though cognate to the service under the Vote, was of a nature within the contemplation of Parliament when the Vote was taken, then the sanction of the Treasury should be withheld and the sanction of Parliament obtained.

My Lords agree in principle with the views expressed by the Committee in the 54th paragraph of their Report with regard to the raising of new Subheads not contemplated in the original Estimates. They submit, however, that the actual services for which it may appear desirable to raise new Subheads are not generally of sufficient magnitude, importance, or interest to require the previous sanction of Parliament. My Lords think that the Treasury must primarily be the responsible judge in each particular case; but every such decision of this Board is necessarily subject to the criticisms of the Comptroller and Auditor General, and the review of the Public Accounts Committee.

THE POWER OF THE TREASURY TO SANCTION GIFTS OF STORES FOR CHARITABLE PURPOSES.

55. Your Committee learn that the exercise of this power has been called in question more than once. Strictly speaking, no such power exists. To use a naval or military store for other than a naval or military purpose, and yet more for other than an Imperial service, is technically a misappropriation. All that the Treasury really does, by giving a covering sanction to such a misappropriation, and directing its record on the face of the Appropriation Account, is to signify that the

circumstances were such as, in their opinion, Parliament would probably hold to justify the act.

56. When it is unnecessary to replace the stores, the Treasury appear to hold that no money need be voted on account of them. If the stores must be replaced, it would no doubt be open to the Treasury to advance their value from the Civil Contingencies Fund in anticipation of a Vote. But your Committee learn that the disposition of the Treasury has usually been of late years to require the Naval and Military Departments to record such charitable donations in their own accounts, so as to keep the responsibility for them on the right shoulders.

When, however, the occasion cannot be met by the immediate gifts of the naval and military authorities, and it becomes necessary to appeal to Parliament for a money grant, the Treasury has to assume an initial responsibility for the expenditure, and the requisite Vote finds its proper place amongst the Civil Estimates. Indeed the Comptroller and Auditor General considers that repayment of the value of the stores should be made to Army and Navy Funds from the Civil Contingencies Fund by a special Vote.

57. Your Committee concur in the opinion of the Treasury, that it is impracticable to forbid gifts of this kind wholly. But it is imperative upon the Departments, whose officers have taken upon themselves the responsibility for these gifts, to report them to the Treasury, and record them in the Appropriation Accounts for the information of Parliament.*

Treasury Minute 18 *October* 1894; *see after paragraph* 10 *of Second Report at p.* 325.

APPLICATION OF EXTRA RECEIPTS IN AID OF GROSS ESTIMATED EXPENDITURE.

59. A question has been raised in the Committee as to the expediency of reconsidering the practice under which the Extra Receipts of the Departments are appropriated in aid of the Grants of Parliament for the respective Services; and the present system has been objected to on the ground that it tends to mislead Parliament as regards the total expenditure for which provision is made.

60. The question of the mode of dealing with Extra Receipts was under departmental inquiry and consideration for many years, and had been repeatedly under the notice of different Committees of Public Accounts until, finally, it formed the subject of an exhaustive inquiry by the Public Accounts Committee in 1881, in connexion with a scheme placed before the Committee by the Treasury in their Minute of 27 June 1881. In this Minute the Treasury summarized the objections to the then existing practice as follows:—

" (1) The paying of a large proportion of these receipts into the Exchequer, and the consequent voting or re-voting of the expenditure which they represent, have the effect of overstating both the public revenue and expenditure, or, as the public understand it, the taxation of the country and the cost of Government, by a sum which may be roughly stated at the present time as more than £4,000,000 annually.

" (2) The Departments do not get credit for their receipts, and have not therefore inducement to realize them, and thus reduce to the utmost the net charge of Government upon the taxpayer.

" (3) Apart from these objections of principle, there is also the objection that, under present practice there is no uniformity or consistency among the different Departments in their method of treating extra receipts."

61. The Committee of Public Accounts made a separate Report on the subject, in which, with the concurrence of the then Comptroller and

* *See also* P.A.C. 1923. 85, at p. .

Auditor General, they approved the adoption of the Treasury proposal to apply the new scheme in the first instance to the extra receipts of the Army and Navy, which, they remarked, " though making an important " advance in the right direction, must be considered as tentative, and " not as a final settlement " (*see* paragraph 4 of Third Report 1881). The Appendix to the Report of the Committee gives the fullest information of the various stages of the discussion upon this question, of the inquiries upon which the scheme was based, and of the grounds upon which the expediency of the change was advocated.

62. The extension of the system to the Votes for Civil Services has only been effected in recent years by a gradual process covering first one Vote and then another, as, for instance, the Exchequer and Audit Office in 1883–84; the Diplomatic and Consular Services in 1885–86. In 1892–93 there was a large extension covering 39 Votes (*see* paragraph 5, Comptroller and Auditor General's General Report). But there remain some to which it has not yet been extended (*see* paragraph 5 above cited). In 1883 the Committee stated that one uniform principle should be observed throughout the Services, and recommended a gradual extension of the system to those Civil Service Votes which most readily admit of it (*see* Second Report, 1883, paragraph 2).

63. The change of practice, which originally rested upon directions in Treasury Minutes, has received the statutory authority contained in section 2 (3) of the Public Accounts and Charges Act of 1891.

64. It is clear, therefore, to your Committee that the conclusions arrived at, after full and complete inquiry, by the Public Accounts Committee of 1881, have been repeatedly affirmed or practically sustained by subsequent Committees, and formally approved by Parliament itself in the recent statute above quoted.

65. It is further to be observed that the system in question does not appear to your Committee essentially to weaken the control of Parliament over the total expenditure, or affect the functions of the Comptroller and Auditor General in his examination and criticism of that expenditure. The Gross Expenditure and the Appropriations in Aid are both shown in the Estimates, and can be criticized in detail before the Vote is taken net. If the Expected Receipts should exceed the Estimated Expenditure when the Estimate is framed, then only so much of them is proposed for appropriation as may leave a nominal balance of expenditure to be voted, in order that the Estimate may come under Parliamentary review. In that case the unappropriated remainder would be paid into the Exchequer.

66. In these circumstances your Committee are not of opinion that any reconsideration of the practice is at present called for, more especially in view of the proposed changes in the Appropriation Acts dealt with in paragraph 8 of the Third Report of your Committee, which have been recommended for the purpose of strengthening the control of Parliament in regard to the appropriation of the moneys in question.

T.M. 15 *December* 1894.—*My Lords are glad to note that the Committee do not recommend, as a result of their consideration of the subject, any modification of the existing system, as regards the mode of appropriating receipts in aid of voted expenditure. They would strongly deprecate the reopening of a question which formed the subject of exhaustive inquiry and consideration some few years ago, or the revising of a system with the working of which my Lords have every reason to be satisfied.*

SECOND REPORT, 1895. H.C. 284.

Treasury Minute, 10 September 1895.

ARMY APPROPRIATION ACCOUNT.

Explanations of Surpluses and Deficits.

4. It will be seen from your Committee's Report of last Session that the Comptroller and Auditor General brought to notice that last year the explanations by the War Office of "casual differences" were often insufficient, as being little more than statements of the fact. This year the War Office have rendered fuller explanations, which upon the face of them seem satisfactory; and the Comptroller and Auditor General so accepts them as administrative representations, given not on his authority, but upon that of the War Office.

VOTE 9.

Inspection Department Balance Sheet.

21. In his 13th paragraph the Comptroller and Auditor General adverts to the balance sheet of the Inspection Department. He observes that until the cost of certain establishments is ascertained and included in the general balance sheet of the Inspection Department the full value of the balance sheet will not be realized. Further, he remarks that if the value of the stores inspected were given with the balance sheet it would serve the useful purpose of enabling a comparison to be made from year to year of the relation borne by such value to the cost of inspection. And he has rightly understood that this was the view or intention of your Committee, in order that Parliament may know exactly how the money is spent for the work of inspection.

22. The War Office has, however, understood differently the object of this balance sheet. They supposed that this object was to fix the charges as between the Army and Navy for this purpose, and they say that the account never was furnished or attached to the Appropriation Accounts, and that it is not a manufacturing account. Further, they represent that the balance sheet includes all the establishments contemplated by the Comptroller and Auditor General in so far as relates to the establishments employed in inspecting stores at Woolwich. But they apprehend that the Comptroller and Auditor General wishes to include much more than that, comprising all the expenditure which is incurred throughout the service on account of establishments engaged in inspection of any kind. The Comptroller and Auditor General rejoins that if the balance sheet does not contain all that he requires, then it will not be technically accurate, and will not serve for the information of Parliament. The Treasury concur in this view; but doubt whether it would be worth while going to the trouble and expense of preparing such a balance sheet. The War Office do not deny the possibility of preparing such a balance sheet, but urge that it will cause much trouble, involving expense of something under £3,000.

23. On the whole, your Committee feel constrained to observe that the War Office have not as yet given that full degree of attention to this matter which was needed for carrying out the wishes of the Comptroller and Auditor General, whose wishes, indeed, were in accord with the intention of the Public Accounts Committee. Your Committee now recommend that the War Office take up the question of preparing a perfect balance sheet as proposed by the Comptroller and Auditor General, and ascertain exactly the cost of preparing it. If such cost, in

the opinion of the Treasury, should not prove so great as to be prohibitory, then your Committee think that such a balance sheet should be prepared.

Their Lordships understand that the balance sheet, as at present prepared, meets the objects for which it was designed by the War Office. They have no desire to add to the already numerous published Army Accounts, one that is either imperfect or that would cost more to prepare perfectly than the information afforded by it is worth. They request, however, in view of the opinion expressed by the Committee, that the Secretary of State will cause them to be furnished with an estimate of the cost of preparing a complete balance sheet in a form that would meet the wishes of the Comptroller and Auditor General.

Extract from Treasury letter of 25 January 1896 to War Office (Army Appropriation Account, 1894-95, H.C. 55/96, p. 160):—The War Department are unable to estimate the exact cost of this document, but they have satisfied my Lords that it would be very considerable. Using, therefore, the discretion in this matter which the Committee wished them to exercise, my Lords decide that the advantages likely to be obtained from the balance sheet are incommensurate with its probable cost, and that the War Department need not append it to the Army Appropriation Account.

VOTE 10.

Transfers of War Office Property.

30. In their Report of last year your Committee observed "that "there are no official means whereby transactions relating to exchanges "of land are required to be brought under the cognizance of Parlia- "ment, unless some expenditure of money is involved." A Treasury Minute was subsequently issued in accordance therewith. The intention certainly was that in such cases a note should be appended. The War Office, however, appears to have placed a somewhat narrower interpretation on the intention of your Committee, and propose to append such a note only in those cases where no money passes, while in other cases some small sum would be entered, just enough to attract the notice of the Comptroller and Auditor General, and enable him to follow up the transaction. To this the Comptroller and Auditor General rejoins that in this way the transaction would indeed be brought to his notice, but not to the notice of Parliament. And the object is that Parliament should be informed.

31. Your Committee now adhere to the view of the Comptroller and Auditor General. They notice a case where £500 is set down where the transaction was really for £5,000; the Comptroller and Auditor General might follow it up, but the statement might of itself have a misleading effect on Parliament. They have impressed on the War Office the desirability of furnishing a complete note in all these cases, such a note as may be understood by Parliament; and they learn there will be no difficulty in doing this.

The Committee hold that Parliament should be informed by a note to the Appropriation Account whenever the money paid for such property is only part of the consideration in respect of which the transfer is made, and that sufficient explanation should be given to enable Parliament to understand the true nature of the transaction. My Lords hope that this recommendation may be acted upon.

VOTE 16.

Exceptional Grant of a Deferred Pension.

33. By his paragraph 23 the Comptroller and Auditor General has drawn attention to the case of the pension to Sir Evan Nepean. He

is unable to pass the present allowance to this retired officer without noticing the unusual character both of the original award and of the subsequent action regarding it. The case may be summarized thus: Sir Evan Nepean, Director of Contracts, at the age of 54, not being then entitled to full pension, was, at his own request, allowed to retire under the provisions of the Superannuation Act of 1859, on the understanding that he was to receive his pension at a certain rate on attaining the age of 60 years. This compensation allowance of £950 per annum was calculated upon his actual service of 38 years, and was £50 per annum less than he would have earned by remaining in the Service until the age of 60. The reason was that he wished to take up some private employment at once without forfeiting his claim to pension, when six years later he should attain the pensionable age of 60. But before he attained this age the employment failed, and he then desired to come back at once to his Governmental status and to obtain a pension at same rate; in other words to draw as much of his deferred compensation allowance as could be given to him. This was fixed at £697 16*s*. 6*d*. per annum, being the then actuarial value of the deferred allowance of £950 which had been awarded to him, as mentioned above.

35. Your Committee learn that the Treasury sanctioned these two arrangements; first the one in 1891, by which Sir Evan Nepean retired on a prospective pension, secondly, that of 1893, by which, on his return, he received a modified pension. They held that it was within their power under the Superannuation Act to allow an arrangement by which the public gained, and which was also to the supposed advantage of a very meritorious public officer; and, therefore, they thought they might sanction it. The Treasury have explained to your Committee that there was, in consequence of the retirement of Sir Evan Nepean, the abolition of a senior clerkship, also some reorganization departmentally; they indicate that, in one way and another, there was some gain or saving financially by these arrangements. It is difficult for your Committee to offer an opinion on these details. The judgment of the Treasury on these points must be accepted. Doubtless, when it had been decided to make the arrangement for Sir Evan Nepean, the Treasury took care that the financial terms were settled with due regard to financial economy. And, certainly, the Superannuation Act does under such circumstances give a very wide power to the Treasury. It is consequently contended that their action in this case was legal. Your Committee are not prepared to question this, although the Act adverts mainly (but not entirely) to the abolition of office, and compensation for the loss of the same; but this condition does not apply to Sir Evan Nepean, as the case arose out of his volition. The Act further adverts to reorganization; and the judgment of the Treasury must, your Committee understand, be accepted as to whether there was in this case such reorganization as that contemplated by the law.

36. But granting that the action in this case was legal, or at least that its legality could not be well disputed, there would remain the question as to whether these proceedings were politic in reference to the good ordering of the Public Service. Once the arrangement of 1891 had been made, your Committee are prepared to admit that the arrangement of 1893 was nearly inevitable, and so far appreciate the imperative reasoning under which the Treasury acted. But this throws back the doubt upon the arrangement of 1891. And here it is impossible for your Committee to express any concurrence. The proceedings were admittedly unusual, and the granting of a postponement pension unprecedented, as an officer not entitled by service to a pension was permitted to retire five or six years before his pensionable time on the

prospect of a pension payable when that time arrived. Ordinarily he would be bound to serve out his time for pension; if for his own interest he chose to retire before that time, he ought to have accepted the operation of the rules of the Service. The consequence of the whole arrangement has been that there has been thrown on the present year a charge which might never fall on the public at all, as the recipient might not live to 1896. A special arrangement apart from those rules was doubtless for his advantage personally, real or supposed. But it would form a most inconvenient precedent, unless some really public reasons could be adduced. Your Committee have failed to perceive any adequate justification, though much explanation by way of justification has been given, and they think it unfortunate that such an arrangement should have been submitted to, or approved by, the Treasury.

The Committee are not prepared to say that the arrangements made in 1891 *for granting Sir Evan a deferred pension, and in* 1893 *for commuting that pension for an immediate one, were illegal; but they hold that no sufficient public reason has been adduced for allowing Sir Evan to retire on any pension before the age of* 60, *and that a charge has been thrown on the present year which might never have fallen on the public at all, because Sir Evan may not live until December* 1896, *when he will reach the age of* 60, *at which it is optional for officers of the Civil Service to retire on the pension earned by their service.*

My Lords quite agree with the Committee in deprecating any departure from the ordinary rules of the Service for the purpose of helping an experienced and highly paid officer, in the prime of life, to enter private employment. It was this consideration, and not any doubt as to the sufficiency of the saving, that led to the rejection of Sir Evan's request for leave to retire on a pension, in the first instance, and the proposal of a deferred pension was his own spontaneous suggestion, not a condition imposed by the Treasury for financial reasons.

STORE ACCOUNTS OF THE ARMY.

Sale of Stores otherwise than by Public Auction or Tender.

45. Your Committee in 1889* held that the sale of stores should be under the sanction and control of strict regulations. From the present Report of the Comptroller and Auditor General there arises the question, in the opinion of your Committee, as to whether such regulations have been adequately framed. The War Office agree that the general rule is that these stores shall be sold by auction. But sometimes an opportunity occurs for selling special stores otherwise than by auction, a fair bargain being made with regard to them. In 1889 the War Office considered that the special sanction of the Financial Secretary should be given in each case; further, that the Store Department should confer with another Department (the Director of Contracts), and that such arrangements should be approved by the Financial Secretary; so that three independent and responsible persons should agree in the transaction. The evidence now given by the War Office before your Committee is to the same effect, with the addition that no further regulation beyond this appears to be practicable.

46. The Treasury seemed inclined, in 1889, to go somewhat further, and consider the existing regulation to be that sales take place by auction as a general rule, but there are cases to which this rule does not apply; and regulations might be made defining these exceptions and specifying what are the circumstances which would warrant an exception to the general rule.

* See P.A.C. 4. 1889. 14, at p. 238.

47. Your Committee think that the matter should now be further considered by the Treasury, in order that the practice for the future may be regulated; though apparently it is possible that the Treasury might be satisfied with some such practice as that described by the War Office.

The idea of the Public Accounts Committee and of the Treasury in 1889 *was that regulations might be framed defining the classes of cases in which sales might be effected without recourse to public auction or tender. In practice, however, it has been found more convenient not to attempt this definition, but to direct that no exception to the general rule of public sale should be made without the previous concurrence of the Director of Contracts, and the Financial Secretary or his representative. My Lords have no objection to offer to this practice.*

Losses by Fraud; Responsibility of Commanding Officers.

56. From paragraph 8 of the Comptroller and Auditor General's Report it appears that there were certain losses of regimental clothing by fraud in the Royal Irish Rifles Regiment, whereon the quartermaster was cashiered. The Treasury considered that further action was required in reference to the enforcement of the pecuniary liability which the regulations impose on the commanding officer; and deferred their sanction to the writing off of the loss until your Committee shall have had an opportunity of expressing an opinion on the matter. On this your Committee learn that the Treasury found by the regulations a certain responsibility rested on the commanding officer, and held that this responsibility ought to be a real one. They gathered from the letter of the War Department that the Secretary of State acknowledged the existence of this responsibility, but was persuaded by his military advisers that the enforcement of it would be nearly impossible. It was considered that the only mode of procedure was by court-martial, and that from such a court a condemnation would probably not be obtained. The Treasury were not satisfied with that. They thought that the responsibility should be made a real one, or else withdrawn altogether.

63. Upon the evidence before them your Committee find as follows, respecting financial considerations quite apart from any military consideration. The commanding officer was undoubtedly answerable, from a financial point of view, in not insisting upon the returns being punctually sent in by his quartermaster. This was his financial business, and it appears not to have been done. Even when pressing reminders were received from the Clothing Department, still the returns were not sent in time. The commanding officer is responsible for not duly attending to these reminders.

64. It was the delay in the transmission of returns that rendered the frauds practicable for so many years, and the commanding officer has his share of responsibility.

65. In all these failures responsibility on financial considerations attached to the commanding officer, and yet he does not seem to have been called to account or put on his defence, as your Committee think that he ought to have been.

66. The Clothing Department did not press for the returns and accounts with adequate energy. They did send reminders indeed; but they did not follow the matter up with sufficient persistency when the reminders failed. Had they done so the frauds would have been prevented much sooner.

The Secretary of State will remember that the Treasury declined to sanction the write-off of the value of a very heavy loss of clothing in the

Royal Irish Rifles until the Public Accounts Committee had expressed their opinion regarding the responsibility for such losses which is imposed on commanding officers by the clothing regulations. The War Department seemed disposed to treat this responsibility as an unreality, and to confine both inquiry and penalty, in case of fault, to the quartermaster in charge of the clothing. The Treasury, on the other hand, held that, so long as the regulations remain in their present shape, it was not enough to punish the defaulting storekeeper, and that the commanding officer should be required to show that he had exercised proper supervision over him, and that if such commanding officer had been careless, and neglected to fulfil the regulations himself, or to require the storekeeper to fulfil them, the propriety of enforcing his pecuniary responsibility in whole or part should be carefully considered, and the conclusion arrived at should be communicated to this Department.

It will be seen that the Committee concur in the view taken by the Treasury. My Lords are alive to the risk of attaching so severe a financial liability to the responsibility of commanding officers as to make it impossible to maintain that responsibility at all, and will have every disposition to concur in the decision arrived at by the Secretary of State, in any particular case, provided they can feel assured that the responsibility of the commanding officer has been duly weighed. It should be confined to the fulfilment of a few simple rules; but if the officer wantonly neglects those rules, he should be made to know that his pecuniary responsibility is something not to be trifled with.

Authority for the Write-off of Losses of Stores.

69. In reference to the loss of stores by robbery at Hong Kong, your Committee have had to consider the rules regarding Treasury sanction being obtained to the writing off of losses in the War Department and the Admiralty. It was laid down by the Public Accounts Committee in 1892 that the inability to bring the loss home to an individual should not necessarily relieve the Admiralty of the necessity of obtaining Treasury sanction in a case of this kind. A reference was then made to the War Department with a view to the same doctrine being accepted there. The desired agreement has not, however, been obtained as yet. It appears that heretofore the War Office have considered that it is not necessary for them to apply to the Treasury except when a case of personal liability is brought home to a certain individual. Such, too, in times past seems to have been the view of the Treasury before the introduction of the present system of Store Audit.

The War Department has acted on the view that Treasury authority is not required for the write-off when no personal liability for the loss has been brought home to a particular individual; and this was the view of the Treasury itself before the establishment of the test audit of store accounts in 1886. *That audit has gradually brought those accounts under more direct Treasury control. Deficiencies of stores discovered by stocktaking are reported to the Treasury by both the Admiralty and the War Department for sanction to their write-off. In like manner unrecovered losses of stores should be reported, whether personal liability for the losses be established or not. In every case of deficiency or loss, the responsibility of the officer in charge of the stores is involved, and matter may be afforded for a reference to the Treasury. The general rule should be that Treasury authority is required for the write-off of losses of stores, however caused. My Lords, however, are prepared to allow that there may be exceptions to this rule, on the ground of smallness of the amount lost, or of the character of the loss; and following the recommendation of the Committee, they are prepared to*

consider, in concert with the War Office and Admiralty, what these exceptions ought to be.

[See further pp. 383-4.]

Surpluses and Deficiencies of Stores.

71. The attention of your Committee has been drawn to the setting off of surpluses against deficiencies of stores, with special reference to the School of Military Engineering at Chatham. It is justly held by the Treasury that this cannot be properly done unless there is a correlation between the stores that are included in the surpluses and deficiencies, and this did not exist at Chatham. . . . The deficiencies were mainly in tools which were in daily use, and the surpluses arose from railway plant and boats taken on charge for the first time in consequence of the stocktaking.

72. The Comptroller and Auditor General holds that if the writing off can be done without correlation, or in other words, if surpluses of one kind of stores can be set off against losses of another kind, with which they had nothing to do, then grave losses of public stores might be withheld from the cognizance of the Treasury and of Parliament. And the Treasury appear to concur in this view.

73. The War Office rejoin that the losses are apparent rather than real, being errors in account. Your Committee must, however, observe that apart from such errors there might be real losses, which should not virtually be kept out of sight by being balanced against surpluses of quite another sort. On the other hand, the surplus might be more apparent than real, as was shown in one case before your Committee, because the surplus was made up by including some valuable stores which had never been brought on account before.

74. Notwithstanding the view of the War Office, your Committee are clearly of opinion that surpluses should not be set off against deficiencies, by the sole authority of the Secretary of State, unless a correlation be clearly established; and that such setting off as those shown in the evidence might lead to grave abuses.

The Committee agree with this Department that a true correlation must exist between the surplus and the deficiency in order to justify the setting off of the one against the other. For instance, the loss of a pair of trousers at the clothing factory would be in no way accounted for or extenuated by the discovery of a surplus wooden leg at Chelsea Hospital, therefore it would be wrong in that case to set off the surplus against the deficiency. But if a storekeeper has erroneously charged himself with one description of stores instead of another, so that the single mistake causes a deficiency of one kind and a surplus of another, the community of cause creates a correlation which warrants the set off of the surplus against the deficiency.

If an inter-departmental Committee be appointed to consider the question of authority for writes-off, as suggested in a preceding section of this letter, that of the rules that should govern the set-off of surpluses against deficiencies might be referred to the same body.

[See further pp. 383-4.]

THIRD REPORT, 1895. H.C. 339.

Treasury Minute, 10 September 1895.

NAVY APPROPRIATION ACCOUNT.

Inspection of Naval Ordnance Stores.

1. Your Committee observe with satisfaction that, in reference to an outstanding question regarding the inspection of stores, the Admiralty accept the inspection of the Director of Artillery, War Office, as their agent, and further accept the responsibility for such inspection to the same extent as if it were conducted by their own officers. This is final, and is in accordance with the wishes of the Public Accounts Committee, and the Treasury is satisfied therewith.

Net Deficit on the Appropriation Account.

6. In paragraph 8 of the Comptroller and Auditor General's Report there stands the sum of £49,719 9s. 2*d.* as the Net Deficit on the whole Account of over 15 millions. This sum has already been mentioned in your Committee's First Report, together with the particular causes to which the Admiralty attributed the deficit. The Report of the Comptroller and Auditor General was not then before your Committee. But having now considered the paragraph 8 of that Report, and taken evidence thereon, your Committee deem it necessary to make the following observations on the manner in which the deficit has been accounted for.

7. In February 1894 materials were ordered to the value of about £60,000 for delivery and payment before 31 March, Treasury sanction being obtained, as the expenditure had not been provided for in the estimates of the year. This unestimated expenditure might, it was thought, be incurred without passing the limit of the Parliamentary grants of the year. At the time the calculations left, after this expenditure, only a narrow margin of £1,200 on the grand total of 15 millions. Thus the Admiralty proposed at the end of the year to purchase stores which would be wanted for the next year, and represented to the Treasury that there would be money enough for the purpose. But ultimately it turned out that there was not money enough. Your Committee must observe that this proposal was somewhat unusual and irregular, and that the Admiralty was specially bound to make sure that there would be a supply sufficient to meet the proposed expenditure. They concur with the Comptroller and Auditor General's remark to the effect that where it is proposed to use anticipated but unrealized savings of one year in order to make purchases provided for in another year, it should be abundantly clear that no deficit can arise. Doubtless the Admiralty did their best to assure themselves beforehand; still the calculation failed, and the unavoidable uncertainty of such calculations is an additional reason against such a proposal as this.

8. Instead of a narrow margin of £1,200 in the expectation there resulted a deficit or excess of £49,000. And your Committee proceed to consider the reasons adduced by the Admiralty for that, namely, a deficiency in the receipts (Appropriations in Aid) expected from India, and the loss of the cash that went down with the "Victoria." The question at once arises why should the Admiralty select these two items to account for a deficit or excess on the grand total of 15 millions? In the first place there were general objections to singling out any items

from this great account, and saying that to them in particular the deficit was attributable. The deficit was upon the whole account. But to the selection of these two items there were special objections. When this matter arose in February 1894, it was known that a considerable sum had been lost in the " Victoria," which had gone down some months previously, and that there would be a deficiency from the contribution from India. The Admiralty rejoin that the exact amounts of these two items were not known in February 1894. Still they were known (and ought to have been taken into calculation) when the Admiralty represented to the Treasury that there would be a surplus. The Admiralty seem to offer as some explanation the fact that out of the £60,000 already mentioned a sum of only £29,000 was expended; but if this be meant as explanation your Committee could not regard it as adequate. In order to do justice to the Admiralty as much as possible your Committee would add that a part of the excess is made up of the sum of £12,000, which was expended under Vote 9, not altogether for Admiralty purposes, but rather for the purpose of keeping the men employed at the Ordnance factories. It might be said that this was a policy imposed on them by the central authority in consequence of the position of the factory workmen. After giving due weight to this, your Committee do not find that it would materially affect their view of the whole case.

9. The Treasury explain to your Committee that these two items—Indian contribution and cash in " Victoria "—were indeed known quite well when the forecast was made in February and March of 1894. On consideration they do not say that the Admiralty, strictly speaking, is entitled to attribute the deficit to the two particular causes above mentioned. There was the whole Appropriation Account before Parliament at the time giving the surpluses and deficits on all the Navy Votes. It was no easy matter for the Admiralty to single out specific causes for the net deficit. That deficit was really the result of a great number of causes. Further, the Treasury explain to your Committee that in their opinion, if the Admiralty found it necessary to state why the forecast was beside the mark, their best answer would have been, first, that they thought Vote 2 (the Victualling Vote) would have been sufficiently equipped in March; but it really showed a deficit of over £40,000, and, secondly, as regards Vote 10 (the Works Vote), they thought it would show a small surplus; it really showed a deficit. These would, in their opinion, have been good and true reasons, and both the Votes in question are large ones. Your Committee then inquired why these reasons were not assigned instead of the two inferior reasons to which exception has been already taken; and the Treasury put the explanation thus. When the Admiralty came to prepare an Excess Vote for presentation to Parliament, then, inasmuch as Parliament was already seized of the Appropriation Accounts, they had to think of the two simplest explanations that could be given to Parliament, first of the net excesses upon gross Votes, and, secondly, of the fallings off in Appropriations in Aid. In respect to the latter the short payment from India was obvious. In respect to the former the Admiralty would have had great difficulty in connecting the excess with the two great Votes of Victualling and Works without going into all the details of the Appropriation Account. Therefore they singled out a particular service which was entirely unprovided for in the original Estimate, which was a specific and easily identifiable service, and which happened to very nearly correspond with the net excess; and that was the loss of cash in the " Victoria." The Treasury now think that such an explanation as this must be held to be deficient, but they had no opportunity of expressing an opinion on its adequacy at the time.

10. The Admiralty give to your Committee the simple reason that it would have complicated the matter before the House of Commons if a long statement had to be presented of excesses and surpluses. The Comptroller and Auditor General informs your Committee that he thinks these two items should not be given as the causes of the excess, unless with them was furnished an explanatory paper showing clearly to what other causes it might be attributed.

11. In their First Report your Committee had not the means of entering upon the sufficiency of the two specific reasons offered by the Admiralty. Having now considered these fully, your Committee is obliged to hold that, financially, they are neither valid nor sufficient. The full reasons ought to have been presented to Parliament, even though the explanation had been complex and lengthy. Further your Committee considers that the application or proposal made by the Admiralty for incurring the unestimated expenditure of £60,000 at the end of one year, in order to relieve the Votes of the coming year, was, in itself, open to grave objection, unless clearly sustained by a practically assured surplus; and there was not any adequate assurance of such a surplus.

12. In reference to this, your Committee have considered the question whether a Supplementary Estimate ought not to have been presented, and whether the Treasury do not share with the Admiralty the responsibility for acting on the forecast of a small surplus without insisting on such Supplementary Estimate. The fact is, however, that there was not time for this; the information came to the Treasury during March, not before the 21st, when it was too late to present a Supplementary Estimate. But that the Treasury acknowledge the need of a Supplementary Estimate in such a case as this is clear from their letter, where they write, H.C. 47/95, page 136: "When my "Lords compare these figures with the forecast of the out-turn of the "Navy Votes for 1893–94, which showed an estimated net surplus of "£1,200 only, and when they remember the various items of excess "expenditure that they sanctioned during the year upon the assurance "of the Board of Admiralty that no net deficit would be incurred on the "total of Navy Votes, they feel that the Admiralty placed too much "reliance on so narrow an estimate. Whenever the margin of "provision over an expenditure of 15 millions can only be estimated "at a few hundred pounds, it would be much safer to present a "Supplementary Estimate."

13. Your Committee concur in this view, and regret that some such course was not taken.

This deficit forms the subject of the First Report also. The Board of Admiralty will observe that the Committee consider (1) *that the deficit ought to have been avoided by taking a supplementary vote in March* 1894; (2) *that the explanation of the deficit given to Parliament in the excess vote was misleading. My Lords agree with the Committee.*

As intimated in their letter of 2 *January* 1895, *when only a very narrow margin of saving, such as* £1,200 *out of a total provision of* £15,000,000, *can be expected at the outside, the prudent course is to apply to Parliament for a supplementary grant.*

With regard to the explanation of the net excess, my Lords think that it was correct, so far as the excess was attributable to a falling short of Appropriations in Aid; but so far as it arose from an under-estimate of expenditure, my Lords think that it would have been more correct to have explained how it was that the net surplus of £1,200 *anticipated on* 21 *March* 1894 *had been converted by the end of the month into a*

considerable deficit. It is not necessary to attempt an absolutely complete explanation, but the leading causes might be indicated, fairly, within a moderate compass.

VOTE 2, SUBHEAD M.—CLOTHING.

Credits to Debit Subheads instead of to Appropriations in Aid.

17. The Comptroller and Auditor General, in paragraph 10, objects to the exceptional arrangement which allows of credits to a debit Subhead instead of Appropriations in Aid, which may increase the spending power of a Subhead. The Admiralty inform your Committee that at the end of the financial year 1895-96 they are prepared to meet the views of the Comptroller and Auditor General and credit the money under Appropriations in Aid; and with this the Comptroller and Auditor General is satisfied. He adds that he has always felt an objection to the system of credits to debit Subheads, as they increase the spending power of a Department, and unless they are absolutely unavoidable they are in principle wrong. In this your Committee concur.

My Lords expressed their views on this subject in their Minute of 24 November 1893 on the Second Report of the Public Accounts Committee, 1893, paragraphs 51–52 [see *pp.* 310-11]. *Briefly, a credit to a debit Subhead is legitimate* (1) *when the Grant for the Subhead is for a net sum, arrived at after allowing for the credit;* (2) *when the credit is in reimbursement of expenditure, charged in the same year to the Subhead, but which had not been provided for in it. In neither of these cases can it be said that the net spending power of the Accounting Department is increased by the credit.*

Their Lordships agree with the Committee in desiring to restrict such credits as much as possible; and as the Admiralty are willing, from 1 April next, to credit Appropriations in Aid with sums recovered from contractors for materials supplied to them for making up garments, instead of crediting Subhead M. of Vote 2 therewith, my Lords approve of the adoption of this course. But the grant for Subhead M. will have to be equivalently increased.

VOTE 10.—WORKS.

Transfers of Stores between Items of Work, and Suitability of Present Form of Vote for Existing Requirements.

20. Under this head there has been some discussion before your Committee regarding the existing form of Vote 10 (Works). The Comptroller and Auditor General thinks that, looking to the extension of the works and the work that will have to be done under the Naval Loan Fund, it is desirable that there should be a recasting of this Vote. This would involve a recasting of the Estimates. The Treasury are prepared to give their best consideration to the suggestion. It is to be remarked, however, that after a long correspondence, some time ago the Navy Works Vote was brought on to the same lines as those for the Army. If, then, the Navy Works Vote is to be again altered, there would be a question whether that for the Army could be made approximately uniform. Further, if this be done for the Army and Navy Votes, it ought perhaps to be extended to the English and Irish Civil Works Votes; and all this would cause some additional expense. Still, the Comptroller and Auditor General advocates this for the sake

of Parliamentary control. The House of Commons would get a closer grip upon the affairs by having a division between labour and material, and by seeing whether the Executive work up to the total of the programme, which could be seen more clearly than it can be now, when the charge is all under one head without a division. Your Committee think that this matter deserves that early consideration which it is understood to be actually receiving from the Departments concerned.

My Lords would be glad to learn the views of the Board of Admiralty as to the suggested assimilation of the form of this Vote to that of Vote 8, the formation of a definite programme of works, and the preparation of expense accounts, showing the outlay in labour and materials, and by contractors, on each work, in fulfilment of that programme.

The unique character and importance of the shipbuilding programme, and the expedience of having the means of comparing the cost of dockyard shipbuilding in different yards with that of contract shipbuilding, justify the labour and cost of the Dockyard Expense Accounts.

In like manner the commercial footing of the Ordnance Factories, which make goods and sell them at cost price, renders expense or manufacturing accounts necessary in their case.

But my Lords hesitate to introduce the same system into the Naval, Military, and Civil Works Votes without further evidence of the advantages of the measure than is yet before them. [See further, p. 375.]

Claim upon the Colonial Office in connexion with a Punitive Expedition on the River Gambia.

Statements of Extra Charges entailed by Naval Expeditions.

25. In his paragraph 26 the Comptroller and Auditor General adverts to the question whether a statement should be furnished to Parliament of the extra cost incurred by the Admiralty in a punitive expedition on the Gambia. It appears that in similar cases the War Office do append to their Appropriation Account statements of the extra expenditure incurred on the numerous military expeditions which are undertaken in all parts of the world. The Treasury think that, so far as practicable, a corresponding course should be pursued by the Admiralty; and on the other hand the Admiralty rejoin that there would be great difficulty in presenting a statement of the cost of the coal, which is the largest item in the expenditure, also of the telegrams. But they can append a statement of all the rest of the expenses. And your Committee recommend that this be done in all cases of this description.

26. The Treasury give a further reason for having some rule as set forth above, in that it may be necessary or desirable to claim some contribution in the event of such expedition being undertaken for the sake of a Colony. In this case a portion of the expense was recovered from the Gambia.

My Lords agree with the Committee that it would be desirable, in accordance with the practice of the War Department, to append to the Navy Appropriation Account separate statements of such extra charge, so far as it may be practicable to give it.

Loss owing to the Defalcations of a Paymaster.

Financial Responsibility of Commanding Officers.

27. There were certain defalcations by the paymaster of H.M.S. "Nymphe," the cash account having been falsified. The commanding

officer was held by the Admiralty to have failed in carrying out the Regulations, which prescribe the examination by him of the balances from time to time; that is, he had not done this with sufficient precision and exactitude. The Regulations are explicit on the subject, and the case was dealt with as a matter of discipline. The commanding officer is entitled to call in officers to assist him in this work; still he is held responsible for the examination; as a rule he does the work himself, and does not cast the responsibility on anyone else.

28. Hereon the Treasury have contended that in cases where loss by fraud of a subordinate has occurred, and where the commanding officer is found to have failed in taking due precautions, he incurs a pecuniary as well as a disciplinary liability; in other words, a penalty may be added and a part of the loss may be recovered from him. The pecuniary liability is contemplated by the Regulations, and should be real and not nominal. The question has been discussed between the Treasury and the Admiralty, the substance of which has been before your Committee, and it appears that the Admiralty admit the above contention. This accords with the view of the Comptroller and Auditor General, who states that the pecuniary responsibility should be a reality, to be enforced to the extent which the Admiralty may think proper. Your Committee learn that certain additions to, or changes in, the Regulations have been made in reference to this point.

The Board of Admiralty will see that the agreement arrived at between them and this Department, on this important subject, and embodied in the Treasury letter of 15 *March* 1895,* *appears to meet with the approval of the Committee.*

Store Accounts of the Navy.

Robbery of Stores; Police Arrangements at the Yards.

44. In relation to this subject the Comptroller and Auditor General adverts in his paragraph 7 to the suggestion made in the Treasury Minute of 18 October 1894, that as a matter of precaution it might be desirable to periodically transfer the police from yard to yard. Information has been received from the Commissioner of the Metropolitan Police (under whom these dockyard police are) that no such periodical transfer has been arranged, but wherever it becomes known that any policeman has relatives in the yard he is immediately transferred. It is to be remembered that the duties of these police are limited; they are stationed to prevent peculation in kind, and cannot undertake to prevent any frauds that are carried out solely by falsifying the records, and it was by such falsification that the frauds known as the metal robberies were, in part at least, carried on. But where collusion between two or more officials becomes necessary for successful perpetration, and articles are removed from the dockyard, then the police come in and may be very useful as a check.

45. Your Committee suggested to the Admiralty that a further reference be made to the Commissioner of Police. It is held by him that a constant and periodical interchange of officers and men would be objectionable from an administrative point of view. But no man is permitted to serve in a yard or in an establishment where he may have relatives in employment; in other words, when it is ascertained that a member of the force has relatives employed in the

* Printed at p. 47 of Appendix to Third Report, H.C. 389/1895.

yard at which he is stationed, he is forthwith transferred to another yard.

46. Your Committee think that the departmental view in this matter must be accepted.

After reading the correspondence printed on pp. 54–5 of the Appendix to their Third Report, my Lords agree with the Committee that it is undesirable to press further the suggestion that the police should be periodically transferred from yard to yard.

FOURTH REPORT, 1895. H.C. 340.

Treasury Minute, 10 September 1895.

CHELSEA HOSPITAL.

2. Your Committee learn, that whenever any occasion arises, which is very rare, for expending any of the capital fund, the Hospital Commissioners have consulted the War Department, and that in future the Treasury is to be consulted also. The capital fund amounts to about £101,000, called "Securities (Stock)." Besides this, there is land yielding £1,200 of annual income. If there be any unexpended balance of income it is invested and becomes part of the capital, and such investments have often taken place. As regards the income derived from capital and land, the Treasury do not claim any control over current expenditure, except in certain cases, such as the raising of the salary of an officer, and the granting of additional allowance to the Pensioners.

ARMY (ORDNANCE FACTORIES) MANUFACTURING ACCOUNTS.

Abandonment of the Piece-work Ledgers for Account Purposes.

3. The attention of your Committee was last year drawn (*see* paragraphs 31–35 of their Second Report, dated 11 July 1894) to certain piece-work ledgers in these factories, with reference to the Accounts generally, and to the purposes of audit particularly. Your Committee then understood that a certain course would be adopted regarding these ledgers, with a view to a final determination regarding them being arrived at. That course has not been pursued, and some failure has occurred. . . .

4. The objects aimed at in the discussion are in this wise: first, to secure that operations in the workshops are not paid for twice over; secondly, that all work which is paid for, and which should be sent into store, is actually received there. These were adverted to in the Evidence before your Committee last year, in their Report to Parliament, and in the subsequent Minutes of the Treasury, confirming and intending to give effect to the views of your Committee and of the Comptroller and Auditor General. The outcome of the proceedings of last year was this, that the above objects, being essential to audit, must be somehow attained, if not by the ledgers in their existing form, then by some revision of their form, or by some extension of them, so that by audit the objects above set forth might be secured. This revision or extension was to be discussed and, if possible, settled at a conference between the departmental officers. The Treasury was to favourably consider any moderate proposals for expenditure in connexion therewith. Your Committee believed that all this was fully understood by the high

officials concerned, and still believe that if not actually understood, it ought to have been so. The Comptroller and Auditor General, however, has now to report that not only has he been unable to make any satisfactory arrangement with the War Office, but that the audit of the accounts for 1893–94 has not been brought to even as satisfactory a conclusion as those of previous years. In other words, instead of progress being made during the years under report there has been retrogression.

5. The causes of this undoubted failure are set forth both in the correspondence between the Treasury and the War Office, and in the Minutes of Evidence taken before your Committee. The date of the above-named circumstances was in July 1894. On 30 November of that year the Comptroller and Auditor General was surprised to learn that for some time past these ledgers had been withdrawn from the accounts for purposes of audit, and had been practically abandoned. Consequently, no proceedings and no conference regarding them had taken place since July 1894. But, further, it appeared that the discontinuance of them for purposes of audit and account had taken place at the end of 1893–94, that is, before April 1894, and before May of that year, when your Committee began to take evidence on the subject. Yet no information of this fact was communicated to your Committee, either by the Director General of the Factories or by the representative of the War Office. Your Committee understood at the time that they were considering ledgers which, though imperfect, were still forming part of the accounts, and not ledgers which for this purpose had been discontinued. The discontinuance, as an accomplished fact, was inconsistent with the tenor of the evidence then given, and a knowledge of it would have affected or modified your Committee's recommendations. This discontinuance has been effected under a general authority from the Secretary of State for War to the Departmental Committee on Factory Accounts, to test the practical working of their conclusions before submitting them for formal sanction. But on this the Treasury justly express surprise that so highly important a step was not communicated to the Public Accounts Committee when they took evidence on the subject on 23 May 1894. Further, the Treasury very properly pronounce that the permission to test a recommendation before submitting it cannot be held to cover the irrevocable abandonment for 1893–94 and 1894–95 of very voluminous and intricate records, of which the Comptroller and Auditor General and the Public Accounts Committee seemed to favour the extension rather than the discontinuance; and that the conference had been urged by the above authorities for future decision, little knowing that a decision had already been actually arrived at and acted upon.

11. The consequence has been that for the immediate past and present the audit of these accounts must remain imperfect. For the future your Committee recommend that the War Office arrange with the Departmental Committee for holding the conference as previously suggested. Your Committee do not understand that the Comproller and Auditor General is at all committed to these particular ledgers. Perhaps it may not be necessary to keep them up. But in that case some other form of statement must be devised in order to produce the desired result, as already set forth by your Committee, namely, that the Comptroller and Auditor General may be able to certify to Parliament that the work has not been paid for twice over, and that the work paid for is actually received into store.

My Lords need not add to the remarks of the Committee upon the unfortunate misunderstanding that arose regarding this measure. The

remedy for the future will be to take the Treasury into council more frequently upon matters relating to the Factories Accounts; and in pursuance of the recommendation of the Committee, my Lords propose that a conference should be held at the first convenient opportunity between representatives of this Department, the War Office, and the Audit Office, on the subjects of the value of the piece-work ledgers, the best safeguard against double payment for work, and the best security that work paid for is actually received into store. [See further, p. 388.]

FIFTH REPORT, 1895. H.C. 348.

Treasury Minute, 26 November 1895.

CIVIL SERVICES APPROPRIATION ACCOUNTS.

GENERAL.

Extra Receipts : Appropriation in Aid of Votes.

1. To his Reports on the numerous Votes in the several Classes of these Services, the Comptroller and Auditor General prefixes a General Report.

2. In his paragraph 2 of this Report he reverts to a subject which has been more or less dealt with on previous occasions, namely, the new system of treating extra receipts, and receipts from the sale of fee stamps, as Appropriations in Aid. He states that so long as exceptions remain to what may now be regarded as the general rule, the advantages of the system cannot be fully obtained. But he regards the question as one of administration, beyond his province. In reference to the absence of entire uniformity in practice, the Treasury inform your Committee that they have endeavoured to apply the system as uniformly as possible, and quite recently it has been applied to an additional Department, namely, that of the Survey. There are, however, certain Departments where the receipts . . . do not lend themselves to be applied in aid of Votes. Therefore the Treasury, although anxious for uniform application, cannot undertake that this object shall always be secured. Your Committee deem it sufficient for the present to impress the importance of this matter on all concerned.

The question of appropriating extra receipts in aid of Votes is, as the Comptroller and Auditor General admits, a question of administration, with regard to which a discretionary power is vested in this Board by the Public Accounts and Charges Act, 1891 (*54 & 55 Vict. c. 24. s. 2*). *In the exercise of that discretion, steps have been taken from time to time by previous Boards of Treasury to extend the practice of appropriating cash receipts in aid of Votes; but the circumstances attending such receipts are not, in their Lordships' judgment, such as to justify the indiscriminate application of the principle to all Votes alike. Indeed, some extra receipts, either from their fluctuating considerably in amount, or from their coming to hand at irregular seasons, do not lend themselves to be appropriated in aid of Votes. But, impressed as they are with the importance of taking such further steps as experience may from time to time dictate in the direction of submitting net estimates to Parliament, my Lords will not fail to keep the question steadily in view, though they see no prospect of securing absolute uniformity of practice in the matter.**

* See further P.A.C. 3. 1896. 1, at p. 390.

CLASS II., VOTE 5.—FOREIGN OFFICE.

Civil Servants: Retention after 70.

12. In his paragraph 2, the Comptroller and Auditor General draws attention to the case of Sir Edward Hertslet, whose services in this office have been prolonged for two years, that is, till February 1896, after his retirement on pension at 70 years of age, with a special temporary salary of £333 annually, which amount, together with his pension, equals his former salary of £1,000, the special salary being borne by the Foreign Office Vote and the pension by another Vote. Although the value of his services is unquestionable, and although on several subjects he is an authority hard to be replaced, yet it is on all hands admitted that this arrangement is in contravention of the Order in Council; and though it was sanctioned by the Treasury, yet there is no rule under which that sanction can be given; such authorization is, indeed, beyond the power of any authority save Parliament itself. Still, the Treasury has of late, in more than one instance, undertaken the responsibility of breaking the Order in particular cases where the public interest is clear and undoubted. No discretion is vested in the Treasury by the Order in Council; still, it is held that occasionally such discretion must be exercised. The Treasury appear, indeed, to deprecate any such discretion being expressly vested in them, lest a pressure of applications should cause some latitude to creep into the observance of the Order. If the provision in the Order in Council is intended to be carried out strictly, it would be far better not to give a discretion in the Order itself, because the Treasury are able to adhere thereto much more strictly if they have not got the discretionary power vested in them. The Treasury declare themselves to be most unwilling to sanction these departures from the rule, and to be anxious to restrict them within the limits of actual necessity. Your Committee attach due weight to these several considerations; still, they must observe that this Order in Council includes many other matters besides pensions and retirements; that if it can be contravened by the Treasury in one matter it may be in any other or in all; and that if such contraventions were to become common the ordering of the Civil Service would be upset. Your Committee therefore consider that the Treasury ought not to comply with any applications contravening the Order in Council, incurring even some public detriment in order to secure the prime advantage of uniformly and unfailingly adhering to the rule. If a case should occur of real necessity for contravening the Order, then your Committee think that the Treasury should be under the obligation of making an application to Parliament.

My Lords note the Committee's opinion that, if a similar case should occur hereafter of real necessity for contravening the provisions of the Order in Council of 15 *August* 1890, *application should be made to Parliament. If such a contingency does arise, my Lords will not fail to bear in mind the opinion which the Committee have expressed in paragraphs* 12 *and* 41 *of their Fifth Report.*

CLASS III., VOTE 5.—COUNTY COURTS.

Appropriations in Aid.

86. In his paragraph 7, the Comptroller and Auditor General, referring to a possible test examination of receipts from fees and fines, gives his opinion to the effect that this is not necessary, because the

work would have to be carried out at the various County Courts, whereas the accounts are already checked and certified by officers apointed by the Treasury under the County Courts Act of 1888. Your Committee agree with the Comptroller and Auditor General in considering that when an audit is conducted by one independent set of auditors on the spot, it is not worth the expense to send another set. This audit is conducted in most places every three months; in some of the smaller courts every six months.

With reference to the receipts from County Court fees, &c., my Lords note with satisfaction that the Committee "agree with the Comptroller and Auditor General in considering that, when an audit is conducted by one independent set of auditors on the spot, it is not worth the expense to send another set."

VOTE 12.—REGISTER HOUSE, EDINBURGH.

Civil Servants : Retention after 70.

41. In his paragraph 2, the Comptroller and Auditor General remarks that the extension of office for one year only to Mr. M'Neilie (since deceased) after he had attained the age of 70 years, was a breach of the Order in Council. This is one of the cases in which the Treasury undertook the responsibility of breaking the Order in the public interest. For this a particular reason has been assigned to your Committee. It was, that he was retained for awhile, because his office was ultimately to be abolished, and it was deemed important to avoid making an appointment to such an office. It would be further desirable to abolish the office at once, as it is held to be unnecessary; but the appointment is a statutory one, and it cannot be abolished without legislation, which has not as yet been attainable.

42. Your Committee recognize that this is, of course, a reason of a certain sort; but the question remains as to whether this is a reason of that imperative character which would justify the contravention of an Order in Council. And the same remark applies to the other cases on which your Committee have had to comment. This case is open to all the observation contained in preceding paragraph 12.

(*See Treasury Minute on paragraph 12 at p. 372.*)

CLASS IV., VOTE 3.—BRITISH MUSEUM.

Temporary Employment after Retirement.

50. In his paragraph 2, the Comptroller and Auditor General refers to two gentlemen over 70 years of age, who, having been retired under the Order in Council, were receiving remuneration for continued temporary employment. On that the question arises as to whether such employment is not a breach of the Order in Council. Your Committee learn that both were specialists employed to do some temporary work which has ceased or is ceasing. But your Committee must observe that it will be difficult always to distinguish between a temporary employment that has some continuity and employment that would contravene the Order; and they recommend that the Treasury should, so far as possible, prevent any further employment whatsoever being given to officers who have been retired under the Order.

My Lords take note of the Committee's recommendation, "That the Treasury should, so far as possible, prevent any further employment whatsoever being given to officers who have been retired," on the score of age, under the Order in Council of 15 August 1890.

VOTE 9.—PUBLIC EDUCATION (SCOTLAND).

Definition of School Week.

52. In his paragraph 2, the Comptroller and Auditor General refers to the proper definition of a school week in respect to the ninepenny fee. It appears that the Education Department think they ought to show an equitable consideration in interpreting the law respecting these points. The claims come up in the end of the year. There is no power of graduating the Grant or granting it in part; the whole Grant must either be allowed or refused, and refusal might, perhaps, cause the loss of £1,000 to a school. In a particular case a doubt arose as to including one week in which the school met on only three days out of the five. It was necessary to reckon that week in order to bring the school within the ninepenny fee. The Department considered on the whole that there was fair ground for doing so, seeing that the larger part of the week had been filled up. In other words, they held that the quarterly fee might be divided into a large enough number of weeks to bring the fee down to ninepence per week; and that for this purpose the week might be considered as a working week (although not a complete week) as the school had been open for the greater number of the days. The difference is as between $8\frac{5}{8}d.$ and $9\frac{1}{4}d.$ The cases arise but rarely, one or two in a year. The schools also are few, only 40 out of 3,300.

53. Your Committee are not disposed to question the discretion which the department have exercised, but they think that jealous strictness ought to be observed by the Department to ensure that the schools conform to the intention of the law as reasonably interpreted.

My Lords make no doubt that such discretion will continue to be exercised with the strictness which the Committee suggest.

Elementary Schools.

56. In his paragraph 4 the Comptroller and Auditor General shows that certain sums assigned out of the Local Taxation Account were distributed through local committees, who made grants to public elementary schools in respect of secondary education, and those grants have been included by the managers in the ordinary school accounts, and treated as income available for the purpose of determining the annual Grant in respect of elementary education. This has been done by the Scotch Education Department with the sanction of the Treasury. He justly deems that the point requires notice, inasmuch as the result of this dealing with the funds allocated for secondary education has been to increase the charge upon the public in respect of elementary education. The Treasury, when sanctioning this, gave full reasons, which your Committee have duly considered. The Treasury concludes that these moneys may properly be reckoned as part of "the income from "all sources whatever other than the Parliamentary Grant of a "Scotch elementary school," and that these sums do not appear to be of the nature of a Parliamentary Grant, being voluntarily assigned by the county out of its share of the local taxation money.

REPORT, 1895 (SESSION 2). H.C. 441.

Treasury Minute, 26 November 1895.

CIVIL SERVICES APPROPRIATION ACCOUNTS.

CLASS V., VOTE 1.—DIPLOMATIC AND CONSULAR SERVICES.

Age Limit.

3. Your Committee remark with satisfaction that the Departmental Committee regarding the application of the age limit to the Consular Service have made their Report; and that an Order in Council is under the consideration of the Treasury in general conformity with the principles already applied to the other branches of the public Service. [*See the Consular Service Order in Council of 6 March* 1896.]

Purchase of Stores from Civil Servants.

5. Your Committee notice that a sum, small in itself (£13 15*s*.) but involving a question of principle, was paid to the Oriental Secretary to the Legation at Teheran for Persian manuscripts. . . . The general rule, as the Comptroller and Auditor General informed your Committee, is that no officer on the Establishment is allowed to sell to the Government articles of his own without obtaining Treasury sanction. That sanction was not specially obtained in this instance, but there does not otherwise appear to be any objection to the transaction. Your Committee, however, consider that the rule referred to is a wholesome one, and that cases of this description require vigilance on the part of the Treasury.

On 19 *October* 1886 *the Treasury conveyed to the British Museum sanction for the continuance of the system under which purchase of Oriental MSS. had for some time been effected (under advice) from Mr. Sydney Churchill, without special reference to this Department in the first instance. This sanction was given upon condition that the purchases should be reported to the Secretary of State for Foreign Affairs.*

FIRST REPORT, 1896. H.C. 227.

Treasury Minute, 16 November 1896.

NAVY APPROPRIATION ACCOUNT.

Committee on Form of the Works Vote (10).

2. Your Committee are informed that the question raised last year by the Comptroller and Auditor General,* as to the suitability of the present form of the Works Vote to existing requirements of accounting, has been referred to a Committee composed of the Director of Works, the Deputy Accountant General, and a representative of the Treasury.

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* See P.A.C. 3. 1895. 20, at p. 366.

The Report of the Committee has not yet been completed; but it is expected that a decision will be arrived at in time for adoption in connexion with next year's Estimates.

A Report on this subject was presented to the Admiralty on 24 August last, by a Committee composed of two representatives of that Department and one of the Treasury, who, on grounds of economy and uniformity with the Works Estimates of other Departments, recommend that the present general form of the Vote should be retained, but that two new Subheads should be added to it, viz.:—One for Miscellaneous Charges, now included in "Repairs and Maintenance," and one for the Purchase of Stores.

They also recommend that one general store should be established in each yard, unconnected with "Repairs and Maintenance," with a ledger through which all materials should pass, showing both value and quantity.

A decision upon this Report will no doubt be arrived at shortly.

Note.—The recommendations were adopted in 1897-98. See Navy Estimates and Appropriation Accounts for that year.

Naval Defence Acts, 1889 and 1893 Accounts.

Comparison of Cost Results between Contract-built and Dockyard-built Ships, and between one Dockyard-built Ship and another.

10. The Comptroller and Auditor General last year directed attention to the differences between the cost of shipbuilding by contract and shipbuilding in the Dockyards, as well as to the varying cost results in cases of vessels of similar classes built in different Dockyards, and invited the Admiralty to furnish any explanations of these differences which they might think it desirable to offer. The Admiralty requested to be allowed time to consider their reply; and the Public Accounts Committee, while holding that the Comptroller and Auditor General was acting within his duty and function as a Parliamentary officer in asking for this explanation, and also that the explanation ought, if possible, to be rendered for the information of Parliament, decided to allow the question to stand over for the time.

The question has been the subject-matter of a considerable amount of correspondence between the Treasury, the Admiralty, and the Comptroller and Auditor General, and has also been carefully considered by your Committee.

As to the comparison between contract-built and dockyard-built ships, it appears clear that in many instances the Admiralty could not furnish any satisfactory explanation of the difference in the cost, being themselves without information as to the circumstances under which the contracts are entered upon; and the Comptroller and Auditor General is prepared to accept the view of the Treasury that it is inexpedient to publish the comparisons in question.

With reference to the comparison instituted between the cost results of sister ships built in the dockyards, the Treasury appears to admit the contention of the Admiralty that the questions raised in this instance are not, strictly speaking, within the primary objects of the Audit under the Army and Navy Audit Act of 1889, and to hold that it rests in the discretion of the Admiralty to furnish answers to them. This is in accordance with the view taken by the Public Accounts Committee in 1888, and with the terms of the Treasury Minute upon the Report of that year. [*Second Report*, 1888, *paras.* 71 *and* 72, *see p.* 207.]

The Admiralty urge that for administrative reasons it is not desirable to make known the details which alone would explain the differences, and your Committee recognize that the ultimate judge of the expediency of publishing such matters is the Department of the Admiralty, upon which must rest the responsibility of witholding the information requested.

It is, however, the opinion of your Commitee that the course taken by the Comptroller and Auditor General was completely justified by the circumstances of the case, and in obvious discharge of his public duty.

The Treasury expressed their view upon this subject in a letter to the Admiralty of 30 March 1895, and my Lords are glad to find that it is in practical agreement with that of the Committee. The differences between the cost of similar ships, according as they are built by Government, or by the trade, or in one Government yard rather than in another, are matters of much public interest, and the Comptroller and Auditor General was clearly within his right, and, as the Committee say, discharging a public duty, when, in the exercise of his discretion, he called attention to them. Nevertheless, it rests with the Board of Admiralty to determine whether, on grounds of public policy, explanations of such differences should be given to the public.

Store Accounts of the Navy.

Independent Surveys of Stock.

13. The stock of stores under the control of the Admiralty authorities may be divided into three classes, viz. :—

(*a*) Naval Stores, kept in the Dockyards, and valued, as above mentioned, at £2,621,000;

(*b*) Victualling Stores, kept in the Victualling Yards, and valued at £1,031,000;

(*c*) Naval Ordnance Stores, kept at Woolwich and other Ordnance Depots, and valued at £7,890,000.

The system of check by way of stocktaking to which these stores are subjected varies in the different classes. So far as the Naval Stores are concerned, there exists a system of continuous stocktaking at each of the Dockyards conducted by the local storekeeper. The storehousemen, who have the actual charge of the stock, keep official ledgers, in which every receipt and issue is entered. Duplicates of these ledgers are kept in the storekeeper's office. In order to make sure that the storehouseman's ledgers at all times represent the stock and the store transactions, the storekeeper exercises a stocktaking through the medium of the members of the staff in his office. This process brings every article under review once in three years; but the more valuable articles are said to be checked every year. In addition to this, officers are from time to time sent down from the office of the Director of Stores to the several Dockyards, with instructions to make surprise stocktakings of particular classes of articles. These officers are independent of the stores staff at the dockyards, but belong to the General Store Department. A further but, perhaps, slight check obtains with respect to Naval Stores in the shape of a value ledger, kept by the Inspector of Dockyards Expense Accounts, which is periodically compared with the quantity postings in the store ledgers when any differences not otherwise explainable would lead to specific stocktaking. This last-mentioned check does not obtain in the case of the other two classes of stores.

As regards Victualling Stores, every article of provisions or other stores is checked by an officer detailed by the Director of Victualling every year. The examination is made quarterly, without information given beforehand to the storekeeper or other officers of the yard as to the articles to be dealt with.

In the case of Naval Ordnance Stores, stock is taken at Woolwich triennially, and at out-stations every two years. The last biennial survey was completed on 30 September last, and the triennial survey at Woolwich will be completed on 30 September next. These stocktakings are made by the local staff, there being no independent staff at present available for the purpose.

Naval Ordnance Stores to the value of about a million sterling are taken charge of by Army Officers in different stations.

Your Committee are informed that with a view to applying the system of test and surprise stocktakings to the Ordnance Stores the Admiralty authorities have for some time been in communication with the Treasury regarding the appointment to the Naval Ordnance Store Branch of the additional staff required for the purpose. . . .

The Comptroller and Auditor General draws attention to the recommendation contained in the Treasury Minute of 19 October 1894, that the Board of Admiralty should consider the possible strengthening of stocktaking operations in the various branches of their Stores Department by the adoption of a system under which officers altogether independent of the Storekeeping branches should carry out surveys of stock. . . .

Your Committee cannot regard the present arrangements as satisfactory. The particular class of officer to be deputed to discharge the duty, and the times and methods of action, are, no doubt, administrative details with which they are not called upon to deal, and which must be left to the responsibility of the Executive. With regard, however, to the general principle, your Committee are in complete accord with the view expressed by the Comptroller and Auditor General, and are unable to signify any change of opinion as to the desirability of independence in stocktaking, or any approval of arrangements which leave stores of such large aggregate value with no independent verification of stock. Your Committee cannot recognize that a system that has been adopted by the War Office authorities with satisfactory results cannot also be adopted with regard to the Navy.

The remarks of the Committee on this subject deserve very careful consideration. It will be observed that the Committee concur with the Comptroller and Auditor General and the Treasury as to the expediency of stocktaking by officers wholly independent of the storekeeping branch, whenever that arrangement is practicable, and that they think that, as this system has been at least partially adopted by the War Department, it can hardly be beyond the reach of the Admiralty.

If my Lords are correctly informed, the independent stocktaking by officers of the Accountant General of the Army applies only to the Army Ordnance Store Depot at Woolwich, where two such officers are permanently engaged in continuous stocktaking, in addition to the surprise and test examinations referred to by the Accountant General in Question 839. *At other Army Ordnance Store Depots the stocktaking is done by the Ordnance Store Officers themselves* (vide *Ordnance Store Regulations issued with Army Orders of* 1 *April* 1896).

Apart from the point of independence of the stocktakers, my Lords think that the existing system of taking stock of naval stores and victualling stores leaves little to be desired. The arrangements

regarding Naval Ordnance Stores have still to be submitted to this Board, and my Lords are awaiting them with interest.

Note.—An addition to the staff of the Naval Ordnance Store Department at the Admiralty was sanctioned in 1897 for the purpose of test stocktaking at the Naval Ordnance Depots, see P.A.C. 4. 1897. 3 and Appendix (H.C. 314/97, p. 63). As to stocktaking by officers independent of the store-keeping branches, see p. 420.

SECOND REPORT, 1896. H.C. 271.

Treasury Minute, 16 *November* 1896.

ARMY APPROPRIATION ACCOUNT.

VOTE 10.

Purchase of Land; Date of Charge.

4. In connexion with this Vote your Committee have had to consider at some length the circumstances connected with the payment of a sum of £8,750 into the Court of Chancery in Ireland, the interest on which, amounting to some £400, has been lost to the public in consequence of non-investment.

The facts of the case are as follows:—

The War Department, being at the time tenants of Kinnegar and Eldon House and grounds near Belfast, entered into a contract for the purchase of the property. Provision had been made in the Estimates for 1892–93 sufficient to cover this purchase though it was not specifically mentioned. The contract, however, was not completed within that financial year, the present owners being unable to show a clear title; and, indeed, even at the present time, after a delay of more than three years, the title has not been cleared.

Towards the end of March 1893 the War Department, for reasons which the Chief Crown Solicitor describes as "financial," pressed to have the purchase money paid into Court before the end of the month. (See Chief Crown Solicitor's Memorandum, App. 12, H.C. 297/96, page 205.)

An application was accordingly made on 28 March 1893, to the Land Judge for an Order to that effect. This application was not made by the Chief Crown Solicitor in person but by the Solicitor having carriage of the sale, at the instance of the Chief Crown Solicitor. The Judge, as a "special favour, consented to receive the application prematurely and out of the ordinary course," and made an order for the lodgment of the money (£8,750), and for its investment in 2¾ per cent. Consols, the dividends accruing therefrom to be paid to the Secretary of State for War to the date of the conveyance, to which date also the War Department was to continue to pay the rent; and in the event of the owners not being able to show title, the money was to be transferred to the Secretary of State for War, with all dividends then due or accruing due thereon.

The money was paid into Court within the financial year. . . .

Upon this case two different points arise for consideration; the first, with reference to the anticipation of expenditure. . .

As to the first point, it seems clear that the instructions which were given to the Chief Crown Solicitor were suggested by the impression that in the event of the difficulties in clearing the title to the property being overcome before the Appropriation Account for the year was closed the payment into Court could be treated as a final payment, and allowed as a charge against the Vote. The Accountant General to the Army admitted that there was a natural anxiety in the Works Department, under the Inspector General of Fortifications, to spend the money available on the works for which provision has been made, because if a payment stood over till the next year, their estimates having in the meantime been framed independently of it, they would be under the necessity of getting special permission from the Treasury to make the charge in the later year, and possibly a Supplementary Vote.

It is, however, a well-established principle of financial administration, with a view both to security and to economy of cash balances, that issues of public money shall be limited to the sums actually required for meeting disbursements for the Public Service. The drafts upon the Paymaster General by accounting officers, by which the issues from the Exchequer Accounts at the Banks of England and Ireland are governed, are of two kinds: (1) final payments; and (2) issues by way of "imprest" to sub-accountants and cashiers for the purpose of making payments locally:—

> (1) Final payments may be made only in respect of fully matured liabilities, whether for service rendered, for work executed, for property acquired, or for supplies delivered.

The War Office authorities were desirous of dealing with this sum of £8,750 as a final payment. They declined to lodge it on deposit-receipt only, although advised by their solicitor that this would have been the proper course. The Accountant General said on this point: "We discountenanced any such arrangement as that. That deposit "receipt would not have been any legal discharge which would enable "us to charge the Vote at all," i.e., the Vote for the year.

> (2) With regard to "imprests," the regulations provide that issues shall be strictly limited to the sums necessary to meet immediate and current requirements.

The payment under review clearly did not fall under either of these classes; neither did it come under the exception which may arise when, in the ordinary course of judicial proceedings, money is ordered to be lodged in Court, or to be held by jointly interested parties to await the result of such proceedings on the completion of legal formalities.

Your Committee have had occasion more than once during the last 15 years to report upon large payments unnecessarily made at the close of the financial year by different spending Departments, apparently for the purpose of avoiding the necessity of a surrender to the Exchequer of unexpended balances.

With reference to this point, the Public Accounts Committee in 1881, in the 84th paragraph of their Report,* remarked:—

> "Payments should not be made until the conditions entitling the contractors to receive such payments have been fulfilled especially as there is, naturally, a tendency at the close of a financial year to make advances of payments on account, rather than have to surrender a balance and increase the estimate of the succeeding year."

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* See page 117.

In the 19th paragraph of the Third Report of 1889,* the Public Accounts Committee said:—

"Your Committee strongly disapprove of advances not claimable under contract; they are irregular in themselves, and are only made to avoid a surrender to the Exchequer."

In the present instance the sale of the property had not been completed; the title had not been made good; and there was not at the time of payment either a liability which had matured, or any immediate prospect of its establishment. . . .

(*a*) *The Lodgment in Court.*

On 7 February 1893 the War Office represented to the Treasury that it was highly desirable to purchase the following properties forthwith, viz.:—

The Kinnegar Estate. . . .

Eldon House and grounds. . . .

The owners were willing to sell at 25 years' purchase of the rental, i.e., . . . £8,750 in all, if that offer were accepted within at most 12 months.

The War Office urged an immediate closure with the offer, in preference to a renewal of the leases, with the prospect of an increase in time of both rents and prices. . . .

No suggestion was made in the War Office letter of a payment of the purchase money into Court, but an immediate answer was requested "in order that the purchase may be completed during the current financial year."

Although the price of £8,750 considerably exceeded the estimate made by the Commissioner of Valuation of the value of the properties on 9 June 1892, the Treasury sanctioned the purchase on the terms proposed, provided that sufficient savings could be effected on the Army Works Vote for 1892–93.

As soon as the Treasury had sanctioned the purchase, the War Department were rightly anxious to complete it, if possible, within the financial year. In their eagerness, however, to attain this end they adopted a most unusual expedient, recourse to which, as proved by the event, was very ill-advised. Under the mistaken notion that such lodgment would constitute a final payment chargeable forthwith against Army Votes, they obtained an order from the Land Judge for the payment of the purchase money into Court, and its investment in Consols for the benefit of the purchasers, pending proof of title by the vendors. As explained to the War Department by Treasury letter of 10 October 1893, it was impossible to charge Army Votes with this payment until the title had been cleared, and the difficulties in proving title, which have only just been removed, made it necessary to continue to treat the payment into Court as an imprest unaccounted for, and consequently to exclude it from the Army Appropriation Account for 1892–93. The equivalent of that payment has accordingly been surrendered to the Exchequer by write-off from Army Votes, in part of the net surplus on the above Appropriation Account; and the deposit in Court remains as an advance from Army balances, repayable to those balances in the event of the purchase never being completed, or chargeable to Vote 10 for the year in which the purchase is completed.

It will be enough if my Lords draw the attention of the Secretary of State to the severe comments made by the Committee upon the fruitless endeavours of the War Department to bring the purchase into charge upon a year in which it could not be effected.

* * * * *

* See page 230.

(c) *The relation between a Saving on a Vote and the "Old Sinking Fund."*

Certain questions asked by the Committee in connexion with this attempted purchase, suggest the expediency of a short explanation of the uncertain and indefinite relation of a saving on a Vote or Grant (as it subsequently becomes, when the Vote is passed) to the "Old Sinking Fund."

The "Old Sinking Fund" *is the amount by which the sums received into the Exchequer in respect of public income may be found to exceed the sums issued out of the Exchequer in respect of expenditure chargeable against income; and such surplus of income (if any) above expenditure is ascertained on the last day of the financial year* (31 March), *on which day the Exchequer Account for the year is instantly and finally closed.* (*Cf. Act* 38 *&* 39 *Vict. c.* 45, *ss.* 4 *and* 5.)

A saving on a grant *is the sum by which the actual net expenditure chargeable against the grant for the year is found to fall short of that grant, according to the Appropriation Accounts rendered by the spending Department; and such actual net expenditure is not finally ascertainable for several months after the close of the financial year in which it was incurred.*

Accordingly, a surplus of income applicable to the reduction of debt, and a saving on a grant, are dependent on different considerations. A "surplus" depends upon the Exchequer Account of Receipts and Issues. A "saving" depends upon the Appropriation Accounts of actual payments.

The Exchequer Issues, which provide for the requirements of spending Departments, are regulated by the Treasury. They do not, and cannot, agree with the actual net expenditure, as finally ascertained. In any single year, they may be more, and they may be less, than such expenditure; though over a series of years the difference will not be material, owing to the strict manner in which the spending power of Departments is limited.

Savings on the grant of one year do not increase the spending power of a Department in the next year. When ascertained, such savings have to be surrendered to the Exchequer; and the surrender is effected by the cancellation of an equivalent amount of the next year's grant, or by (what is technically called) a "write-off."

The principal consideration which guides the Treasury in regulating issues is the spending power of a Department; and it is by this means that our financial system secures practical agreement of issues with actual expenditure, when the aggregate figures of several years are compared.

Unless, however, a Department is practically certain (which rarely happens) that it will not spend all that it has the power to spend, savings do not affect the Exchequer Account of the year in which they occur, and, therefore, they have no direct relation to the "Old Sinking Fund" (if any) of that year.

As regards spending Departments, it is their business to apply their grants with the utmost efficiency and economy to the purposes contemplated by Parliament when making the grants. Such Departments have nothing to do with the Exchequer issues, and consequently nothing to do with the "Old Sinking Fund," which are matters committed by Parliament to the Treasury and the National Debt Commissioners exclusively.

In the opinion of my Lords, a spending Department does right to call in and defray its matured liabilities, so far as the funds placed

at its disposal by Parliament and Treasury Regulations permit. On the other hand, a spending Department cannot be too careful to bear in mind that expenditure incurred at the close of a financial year, with a view solely to avoid a subsequent surrender, is much to be reprehended, on the ground of its extravagant and wasteful tendency. Moreover, resort to so demoralizing a step is not necessary, because the end which the Department has in view can be attained by other and more regular means. That is to say, if the full amount to which the Department is entitled has been issued one year, and the sum so issued is subsequently found to be in excess of its requirements, then the strain on the Budget of the next year is lessened by the amount representing such excess. To this extent what cannot be legitimately and advantageously spent in one year, can, with propriety, be re-voted, or, rather, made the subject of a supplementary vote, in the next year without disturbing the Chancellor of the Exchequer's original calculations, provided, of course, that those calculations are not upset on the other side of the account by the failure of revenue to realize its estimate.

STORE ACCOUNTS OF THE ARMY.

Rules for Writing off Losses of Stores.

7. A Committee composed of representatives of the Treasury, the War Office, and the Admiralty, has been appointed to consider this matter. . . .

Their Lordships hope that the Committee will not merely recommend what exceptions should be made to the general rule of submitting losses of stores to the Treasury before they are written off, but will clearly explain the regulations which should govern the write-off in the case of those exceptions.

EXTRACT from Report of Inter-Departmental Committee on Losses of Stores, Army and Navy, 24 May 1897 (P.A.C., 2. 1898, Appendix, page 163):—The Committee, therefore, recommend the following rules for approval, viz.:—

I. As to the write-off of losses of stores:—

(*a*) That all cases of loss by fraud should be reported to the Treasury.

(*b*) That cases in which the deficiencies are due to fire, shipwreck, stress of weather, accident, incidents of the Service, or other similar circumstances proved on due inquiry to have been beyond the control of any responsible person, need not be reported to the Treasury.

(*c*) That cases in which the deficiency is due to any other causes than the above, should be reported to the Treasury when the value, at full rates, of the net deficiency (*see* Rule II.) exceeds £100, but not otherwise; subject, however, to the proviso that the nature and amount of any such deficiency, whether written off on the approval of the Treasury or of the Department concerned, should be shown in the statement of losses attached to the Annual Appropriation Account when the value exceeds £25.

II. As to setting off surpluses against deficiencies of stores:—

That surpluses may be set off against deficiencies of corresponding number or quantity in the case of stores described under the same generic heading in the Army Vocabulary or Navy Rate Book, and that the net deficiency (if any) thus arrived at, should be governed by rule (*c*) above.

T.L., 17 June 1897, to War Office. Their Lordships direct me to make the following remarks on the recommendations of the Committee:—

I.—(*a*) That all cases of loss by fraud should be reported to the Treasury.

My Lords think that this rule should be extended to cases of robbery, like that at Hong Kong, which started the inquiry (*see* Second Report of Public Accounts Committee, 1895, paragraph 69*), and to all cases of doubt, whether there has been fraud or not, such as that of loss of timber at Portsmouth Sawmills (*see* Fourth Report of Public Accounts Committee, 1892, paragraph 63†). There will be no limit of amount in these cases‡.

I.—(*b*) The deficiencies due to uncontrollable accident need not be reported to the Treasury.

My Lords presume that these losses will be made clear in the Store Accounts, so that the Comptroller and Auditor General will be able to call the attention of Parliament to them if he sees fit. Accidents may involve no blame to anyone, and yet may be indicative of some defect of system.

I.—(*c*) That other losses are to be submitted to the Treasury if of over £100 in value net (*see* Rule II.) and to be reported in a Schedule to the Appropriation Accounts if of over £25 in value net‡.

Under this rule all losses of over £25 will really be submitted to the Treasury, because the Appropriation Accounts, with their Schedules, have to be so submitted before they are sent to the Comptroller and Auditor General. The only difference will be that when the net loss exceeds £100 a special submission will be necessary before the write-off, whilst in the case of losses of from £25 to £100 in value, the submission will be made in connexion with the Appropriation Accounts.

The write-off of the latter losses should therefore be only provisional pending the approval of those accounts.

II.—As to setting off surpluses against deficiencies.

My Lords have no objection to offer to the recommendation under this head.

Subject to the foregoing remarks, my Lords approve of the adoption of the recommendation of the Committee. . . .

I am to add that the rules should, in the opinion of this Board, be extended to deficiencies of stores at the Army Ordnance Factories, although the value of such stores is written off by a charge against production. . . .

(*A similar letter was addressed to the Admiralty.*)

Army (Ordnance Factories) Appropriation Account.

Ordnance Factories Supplies Suspense Account.

12. The estimated expenditure for the year 1894–95 for the establishment, wages, materials, plant, buildings, and miscellaneous charges connected with the factories amounted to £2,297,400; the estimated receipts to be appropriated in aid amounted to £2,297,200. This sum was made up of payments to be made by the Army, the Navy, and the Indian Government, on account of productions, supplemented by the prices realized by the sale of old stores and by certain miscellaneous receipts. The difference, viz., £200 was met by a Grant in Supply.

The expenditure, however, fell short of the amount above mentioned by £86,585 0*s.* 5*d.*; and the receipts were less than were anticipated by £75,567 11*s.* 6*d.*

The difference between these two sums, viz., £11,017 8*s.* 11*d.*, has been carried to the Ordnance Factories Supplies Suspense Account, to

* See page 361. † See page 303.

‡ In 1907 the Treasury delegated to the War Office and to the Admiralty the power to write-off small losses (in no case exceeding £5) by petty theft; see Appropriation Accounts, 1906-7, Army H.C. 51, 1908, p. 214; Navy H.C. 88, 1908, p. 150. In 1921 there was an increase in the powers delegated, see Appendix No. 22 to P.A.C. Reports 1921.

which similar balances in prior years have been posted, and which now shows a total receipt of £64,727 16*s*, 5*d*.

The nature and object of this Suspense Account are set forth very fully and clearly in the Paper numbered 7, printed in the Appendix to this report (*see below*). The regulations under which it is to be continued have not as yet been finally decided upon; but it is agreed that no portion of the surplus can be spent or appropriated without the sanction of Parliament. The question of the amount to which the accumulated balances should be allowed to rise appears to be one of administration, proper to be decided by the Executive; but your Committee are clearly of opinion that it should not, under any circumstances, be permitted to exceed the sum reasonably necessary to provide for the contingencies which this reserve is designed to meet.

The Estimate for the Ordnance Factories presented to Parliament for 1896–97 *gives the first example of the method of applying part of the credit balance on the Suspense Account, with Parliamentary sanction, to the service of the year, for purposes properly chargeable to capital exclusively.*

The rules for the future limitation and use of this balance, proposed by the Treasury and accepted by the Secretary of State in a letter dated 16 *September* 1896, *are as follows:—*

1. *The maximum amount of the credit balance on the Ordnance Factories Supplies Suspense Account shall be* 65,000*l.**

2. *A separate Account of the surplus balances shall be opened in the books of the Paymaster General.*

3. *No part of the balance on this Account shall be spent without the previous authority of Parliament, signified upon the Estimates of the Ordnance Factories for the year.*

4. *The expenditure to which such balance is to be applied with the above sanction shall be capital expenditure on Lands, Buildings, or Machinery.*

5. *If, at the end of any financial year, the credit balance on the account exceeds* 65,000*l.*,* *the excess shall be paid into the Exchequer, unless it can be shown to be merely transitory and unreal, and not to arise from receipts for depreciation or a permanent reduction of stock.*

APPENDIX No. 7 to Second Report, 1896. Ordnance Factories Surpluses and Deficits; Method of dealing with them on the Appropriation Accounts:—

During the discussion before the Public Accounts Committee on 8 May 1895 regarding the disposition of the balance of £37,178 5*s*. 6*d*. shown on the statement of incomings and outgoings in respect of capital in the Royal Ordnance Factories for 1893–94, opinions were expressed by both the Comptroller and Auditor General and the Accountant General of the Army, in favour of treating surpluses and deficiencies on the appropriation accounts of the factories in the same manner as those on other appropriation accounts. The Comptroller and Auditor General described the present system as "a departure from the law," and the Accountant General objected to it as involving "absolutely unnecessary mystery."

The question is not easy, and it is undesirable that a settlement, arrived at in 1890–91, after careful consideration, and with the full concurrence of the Comptroller and Auditor General and the Public Accounts Committee,† should be altered without a full appreciation of the reasons for the original decision.

* The maximum was raised to £100,000 from 1 April 1910, on the understanding that "all balances accruing above the new limit shall be automatically surrendered every year to the Exchequer," see Second Report, 1910 (H.C. 125), para. 85 and Q. 1110. It was further raised to £250,000 in 1922, see P.A.C. 1923, 79, at page 669.

† See P.A.C. 5, 1890, 6, at page 258 and P.A.C. 8, 1891. 22, at page 280.

Before the year 1888–89 the Government establishments for the manufacture of munitions of war were provided for in the ordinary Army Estimates. The Army Warlike Stores Vote used to provide, not merely for the pay of the factories, but for the full cost of the land and sea armaments of the country. This arrangement caused dissatisfaction on various grounds. The Admiralty naturally wished to control the expenditure on sea armaments, and to provide for it in Navy Votes, complaining that the War Department did not do the Navy justice. The War Department wished to get rid of the responsibility of providing for other than land armaments on Army Votes. Complaints were made of the want of unison amongst the various factories, each of which was quite independent of the others, and doubts were entertained as to the real cost of productions.

Accordingly, the following arrangement was made to meet these defects:—

The Ordnance Factories were placed under a single chief, who, though appointed by the Secretary of State for War, and under his disciplinary and financial control, was to deal with the Army and Navy and all other customers of the factories with an even hand on similar terms. Army Votes were to provide for land armaments only, and Navy Votes were to provide for sea armaments. Existing stocks of armaments were to be divided between the War Department and Admiralty. The working capital of the Ordnance Factories was to be provided, first, by giving them the buildings and stocks of stores already in hand; and, secondly, by advances of money from the War Department, Admiralty, and other customers, against orders. The full cost of productions would then be clearly ascertainable, and be comparable with trade prices.

In order, however, to preserve the yearly control of Parliament over the proceedings of the factories, an estimate was to be presented annually showing the expected gross expenditure of the Factories on productions, and the expected receipts from customers and other sources; and upon this estimate there was to be taken, either a token Vote of £100, or, if some additional capital was wanted for new buildings or machinery, a Vote for that capital sum.

It is obvious that if Parliament were to be asked to vote the whole gross expenditure of the factories, the cost of the greater part of our land and sea armaments would be voted twice over, viz., once on the Army and Navy Estimates, and again on the Factories Estimate.

The foregoing arrangement is what is meant by "placing the Factories on a commercial basis" or "making them self-supporting." There is nothing mysterious in it, but it led by practical necessity to a peculiar method of dealing with surpluses and deficits on the Appropriation Accounts, which will be shortly explained.

In the case of an ordinary and annually recurrent Vote of Parliament, a surplus of it already issued is surrendered to the Exchequer by write-off from the grant of a later year, thus avoiding a money repayment which would artificially increase the revenue of that year; and a deficit on the Vote is met by either a supplementary or an excess Vote, according to the time at which it is discovered. This practice of surrendering surpluses to the Exchequer and voting deficits is the natural result of the provisions of the Exchequer and Audit Departments Act, 1866, of the Resolutions in Supply, and of the annual Appropriation Act, which restrict the use of a Vote to a particular year. But no such surrender is actually prescribed by the former Act, section 26 of which requires that an explanation should be furnished to the Comptroller and Auditor General of the manner in which the adjustment of surpluses or deficits of Grants has been effected, but leaves the method of adjustment to the discretion of the Executive.

The inapplicability of the ordinary method of adjustment to the surpluses and deficits on the Appropriation Accounts of the Ordnance Factories arises from the method of taking token Votes for the

Factories, already described, and from the peculiar character of the surpluses and deficits themselves.

Under ordinary circumstances a surplus that accrues from an over-issue from the Exchequer in one year can be easily adjusted by a short issue in the following year; and a deficit that arises from a short Vote in one year can only be made good by voting more for that year. But the surpluses and deficits that occur on the Ordnance Factories Votes are of a different kind. This can be best proved by an illustration.

	£	s.	d.
Let us suppose that the Factories have estimated their gross expenditure for the year at... ...	2,000,000	0	0
And their receipts from customers at	1,999,900	0	0
Leaving a token sum to be voted of £	100	0	0*
And let us suppose that, when the year's accounts are made up, their gross expenditure proves to have been...	1,900,000	0	0
And their receipts from customers to have been...	1,920,000	0	0
Showing a surplus, including the token vote of £100, of ... ... £	20,100	0	0

This surplus will be due, in the main, to the receipts for stores manufactured or semi-manufactured in the year having exceeded the actual outlay in the year. Such a surplus will either be merely temporary, the excess receipt being required immediately to make good past deficiencies, or to meet outstanding liabilities, or it will consists of sums recovered from customers in respect of capital expenditure in previous years, as a charge for "depreciation," or for the value of stores taken out of stock.

Such a surplus could not be surrendered to the Exchequer by write-off from the Vote of a succeeding year, because the Votes are not large enough. It must be paid in cash by the factories if surrendered to the Exchequer at all, thereby unreally swelling revenue. Further, this payment in cash would have to be made perhaps many months after the surplus had been absorbed in the current expenditure of the Factories, and the consequence of this payment into the Exchequer of a transitory surplus might be that Parliament would have to be asked to make good a deficit in a subsequent year.

An equal anomaly would be involved if every deficit in the Factories Accounts were to be voted by Parliament. A deficit probably arises from the Account of the year including expenditure on raw material, or on plant, which cannot be wholly brought into charge against customers within the year. Such a deficit may be made good automatically before the next year is out. If Parliament were required to vote it the grant might not be wanted and would have to be paid back into the Exchequer as a surplus on a succeeding account.

It so happened that the very first Appropriation Account of the Factories, that for 1888-89, brought into vivid relief the unsuitability to the Factories of the ordinary method of dealing with surpluses and deficits. That Account, as prepared by the War Department, showed a surplus of £18,036 14*s.* 9*d.* But the Comptroller and Auditor General reported that certain sums had been credited to Appropriations in Aid prematurely, and that the true outcome of the account was a deficit of £60,547 1*s.* 1*d.* The Comptroller and Auditor General was right; but it would have been justifiable to require the War Department either to ask Parliament for a Vote of over £60.000 for a deficiency which would have been wiped out long before the Vote could be taken, or to surrender a surplus which masked a deficiency.

* It will be observed that, in order to find subject-matter for the net Vote, the War Department must estimate receipts from customers at a little less than the expenditure.

Common sense, therefore, dictated a departure from the ordinary course, and the institution of what is called "The Ordnance Factories Supplies Suspense Account," which is credited with all surpluses and debited with all deficiencies on the Appropriation Accounts, so that the one may absorb the other in the normal progress of business. By this means the disturbance of our revenue account by artificial surrenders is avoided, and recourse to Parliament is confined to occasions when sanction to additional gross expenditure or additional capital is required.

The suspense account in question contains the following items, from 1 April 1888 to 31 March 1895 :—

	Dr. £ s. d.	Cr. £ s. d.
Surplus on Appropriation Account, 1888–89	—	18,036 14 9
Deficit ,, ,, 1889–90	23,927 12 5	—
Surplus ,, ,, 1890–91	—	6,520 10 10
Deficit (corrected) ,, ,, 1891–92	9,501 18 8	—
Surplus ,, ,, 1892–93	—	2,417 16 11
Surplus ,, ,, 1893–94	—	59,864 16 1
Surplus ,, ,, 1894–95	—	11,017 8 11
Token Votes of £100 each on account of excesses of gross expenditure beyond that sanctioned for the years 1890–91, 1891–92, and 1892–93	—	300 0 0
	£33,429 11 1	98,157 7 6

Net credit balance on 31 March 1895—£64,727 16*s.* 5*d.*

This Account only began to show a true credit balance on 31 March 1894. It is interesting to compare that balance with the balances on the statements of incomings and outgoings in respect of capital for 1893–94 and 1894–95. Those statements show that the sums recovered from customers for depreciation of buildings and machinery, and in respect of special machinery for the magazine rifle, and derived from sales of land, buildings, and machinery, and token votes, in 1893–94 and 1894–95, exceeded the expenditure on new buildings, works, and new machinery by £70,708 9*s.* 11*d.* in those two years. It follows that the credit balance of £64,727 16*s.* 5*d.* on the Suspense Account is of the nature of a fund accumulating for the replacement of worn-out buildings and machinery, and for other capital expenditure that may hereafter become necessary.

No part of this surplus can be spent without the sanction of Parliament given upon the yearly Estimates of the Factories. If the gross expenditure provided for in those Estimates be exceeded inadvertently, or if an excess be foreseen in time, further application must be made to Parliament. The Factory Estimates for 1896–97 contain an example of part of the surplus on the suspense account being formally appropriated to meet Capital expenditure.

It is, of course, an open question whether the balance on the suspense account is not larger than should be allowed to remain in the hands of the War Department. Part of it might be paid into the Exchequer, in restitution of Votes of Parliament since 1888–89, or as representing a permanent reduction of stock, without altering the present practice in regard to the current surpluses and deficits on the Factories' Appropriation Accounts. But it would be a pity to surrender any sum that is likely to be soon required for fresh Capital expenditure.

Accounts of the Ordnance Factories.

Inquiry into Checks on Piece-work in the Workshops generally.

13. The Public Accounts Committee of last year [*see* p. 869] dealt at considerable length with the system in force in the factories for the

purpose of securing, firstly, that piece-work operations in the workshops are not paid for twice over, and, secondly, that all work which has been paid for, and which should be sent into store, is actually received there.

In accordance with the recommendation contained in paragraph 11 of that Committee's Report, a conference has been held between representatives of the War Office, the Treasury, and the Department of the Comptroller and Auditor General; and it is anticipated that before long arrangements will be completed whereby the important objects referred to will be practically attained.

Although no final decision has yet been arrived at by the representatives of the Audit Office, War Office, and Treasury, who have inquired into (1) *the value of the piece-work ledgers;* (2) *the best safeguard against double payment for work; and* (3) *the best security that articles paid for are actually received into store in the Ordnance Factories, my Lords are in a position to record what conclusions appear probable to the members of the Conference.*

The value of the piece-work ledgers, which had been discontinued, without communication with the Public Accounts Committee or this Department, under the misunderstanding recorded in paragraphs 8 to 11 of the Fourth Report of the Committee for 1895, lay in their use for purposes of purely internal administration, not for purposes of external audit. They were too incomplete, and their evidence was too behindhand, for the latter use.

Looking to their extreme complication, the labour and expense of keeping them, and the impracticability of applying them to more than certain classes of productions in the Royal Gun Factory and Royal Carriage Department, the Conference could not recommend their revival.

In the opinion of the Conference the most efficient check practicable against double payment for the same work is to be found in the combined records of the worktakers' books and of the newly introduced workmen's piece-work cards, which afford a much speedier check than the old piece-work ledgers. In the few shops to which these cards are inapplicable the articles paid for can usually be stamped by the worktaker, or removed from the reach of the workmen paid for them.

As regards security that articles paid for are duly brought to account, it appears to be impracticable that the movements of every article should be recorded in a manner susceptible of audit. In a few instances, like that of the Metal Case Factory, the piece-work cards are found to afford the desired security. But, as a general rule, the attempt to establish a written connexion between the operative cards of the different shops receiving and issuing articles in various stages of manufacture would entail a very large and disproportionate expenditure. The practical safeguard against the loss of articles paid for lies in the control and oversight of the principal technical officers in charge of the various branches of manufacture, a watchful regard to the out-turn, and the preventive effect of strict police regulations.

Time, however, must be given for testing the effect of the system, and ascertaining that it has been applied to all the cases to which it is suitable; and meanwhile the Conference will defer making a definite Report.

Note.—In his evidence before the Committee of 1899 (Q. 1288) the Comptroller and Auditor General stated that the system might be considered as fully established and working satisfactorily.

THIRD REPORT, 1896. H.C. 297.

Treasury Minute, 12 November 1896.

CIVIL SERVICES APPROPRIATION ACCOUNTS.

Extra Receipts and Receipts from the Sale of Fee Stamps; Appropriation in Aid of Votes.

1. Since the date of the Report of the Public Accounts Committee of last year, the Treasury have considered the possibility of securing uniformity of practice with regard to the Appropriation of Cash Receipts in Aid of Votes. By a Treasury Minute of 1 January 1896,* the system of treating receipts as Appropriations in Aid has been extended to all cash receipts which amount to over £1,000.

It has not, however, been considered desirable to make any change with reference to the receipts arising from the sale of Fee stamps, which are now paid into the Exchequer. These receipts are not collected by the Accounting Officer, but by the Inland Revenue Authorities. It is also to be borne in mind that in several cases the amounts realized by the sale of stamps exceeds the amount of the Vote for the Service in connexion with which they are levied.

Your Committee, accordingly, are disposed to concur in this matter with the views of the Treasury.

My Lords note that the Committee are disposed to concur with the Treasury in the view that it is not expedient to make any change in the direction of appropriating stamp receipts in aid of Votes.

Grants in Aid.

8. The general question of Grants in Aid, which the Committee of Public Accounts of last Session left outstanding, to be dealt with by the present Committee, has been the subject of some remarks by the Comptroller and Auditor General in his General Report prefixed to the Civil Services Appropriation Accounts; of a Treasury Memorandum printed in Appendix No. 16 of the present Report [*see* p. 393]; and also of prolonged examination by your Committee.

Grants in Aid furnish an exception to the general rule that the expenditure within the Parliamentary Votes must be accounted for in detail by the Accounting Officer, the appropriation of the money examined by the Comptroller and Auditor General, and that any unexpended balance disclosed thereby must be surrendered to the Exchequer. These Grants in Aid, being in the nature of subscriptions or contributions for purposes not directly under the control of the Administration, may, it is true, be paid away within the year by the Accounting Officer; but the receipt in full which he obtains from the grantee or grantees is his sufficient discharge; the expenditure is not necessarily followed in detail by the Comptroller and Auditor General; and any unexpended balance remains with the recipients.

In many cases such Grants are not only convenient, but also economical, when the State, though willing to render assistance to a service, does not desire to treat it as a Government Service, or when the expenditure in aid of which the Grant is made is too uncertain to be accurately estimated. The practice which at present obtains in relation to these Grants in Aid appears somewhat unsystematic. Some are made

* H.C. 46/1896, in which paper will be found an explanation of the reasons for continuing to pay into the Exchequer certain extra receipts in connexion with Local Loans Fund, Bankruptcy and Companies (Winding-up), and the Mint.

absolutely and without conditions, the simple receipt of the grantee being sufficient without any account of appropriation.

Of this class the following are examples:—

Class I., Vote 13, £10,000 to the Metropolitan Fire Brigade.

Class I., Vote 16, £2,500, a Compassionate Grant in connexion with a Railway Accident.

Class IV., Votes 6 and 14, Grants to the Royal Society and the Queen's Colleges in Ireland.

Class VI., Vote 6, £15,850 to certain Hospitals.

Class VII., Vote 7, £2,000 to the Hobart (Tasmania) Exhibition Commissioners.

Some Grants in Aid, although for appropriation purposes they are absolute gifts, depend upon the fulfilment of certain conditions. Of this class are certain subheads of the Grant of £86,094 to various Universities and Colleges in Great Britain.

In another class of cases, though the receipt of the grantees is a full discharge for appropriation purposes, yet accounts are required to be furnished either—

(*a*) to the Comptroller and Auditor General, as in the instances of the Mercantile Marine Fund, of the Meteorological Department, and of the Local Government Board for the Cattle Pleuro-Pneumonia Account; or

(*b*) to the Treasury, as in the instance of certain Scientific Societies and Academies.

With respect even to the several National Galleries of the Three Kingdoms the practice does not appear to be quite uniform.

The Grants in Aid of certain Colonies and Dependencies in Class V. are followed up as to details of expenditure by the Comptroller and Auditor General by the aid of officers selected by him.

Again, some Votes designated Grants in Aid are not properly so described, such as the Votes for the Edinburgh Observatory and the Royal Irish Academy.

On the other hand, certain Votes, though not so described, are really Grants in Aid with accounts rendered. Instances of this are the contribution towards the expenses of Discharged Prisoners' Aid Societies under Class III., Vote 14; and the sum taken for the Orange River Territory in Class V., Vote 8.

4. It is clearly desirable that the diversity of practice which these different cases disclose should be reduced to a minimum, and that the simplest system compatible with adminstrative convenience should be adopted in its place.

With a view to the attainment of this end, the Comptroller and Auditor General suggests that in the interest of financial control the use of Grants in Aid should be as much as possible restricted. On this point the Treasury are in complete accord with that officer, and propose to review the present Grants in Aid in order to see whether any of them can be dispensed with, and how far any others of such grants can be usefully followed up by means of more detailed audit.

A second suggestion of the Comptroller and Auditor General is that the Estimates should in all cases clearly show—

(*a*) whether expenditure out of Grants in Aid is or is not to be audited by him; and

(*b*) whether any unexpended balance is or is not to be surrendered.

On this second point the Treasury believe that they are in practical agreement with the Comptroller and Auditor General, and are of opinion that care should be taken that the Estimates and the subsequent Resolutions of the House of Commons should be so worded as to give explicit notice to Parliament of the exceptional nature of the provision for the service in question.

Finally, the Comptroller and Auditor General suggests that the Grants in Aid for such dependencies or protectorates as Bechuanaland, Uganda, and British Central Africa, which are practically Votes to provide for administrative expenditure, should be submitted in some detail in the Estimates, and taken in whole or in part as ordinary Votes.

The Treasury, however, are of opinion that public advantage would not be served by the submission of the Estimates in such cases in greater detail. They consider that such detail would be apt to mislead, and tend to divest Grants in Aid of their true character.

5. Your Committee lean in this matter rather to the view of the Treasury, for one of the advantages of the present form of the Estimates, in the cases referred to, is the elasticity of treatment which it admits of, and which must necessarily be restricted, without any clear public advantage, by more specific appropriation. The Comptroller and Auditor General recognizes that for such services the expenditure can hardly be brought all at once to conform to the rules which govern normal cases.

Your Committee do not feel called upon to enter into details with reference to the individual Votes, or even to the classes enumerated above; these can be more satisfactorily dealt with by the Treasury in consultation as to audit with the Comptroller and Auditor General, after the review of the existing grants which they propose to make; but in the opinion of your Committee, these grants should in future be, so far as conveniently may be, limited to the cases in which it is intended that the amount granted shall be handed over to the grantee or grantees by the accounting officer as a final payment, and that there shall be no annual surrender by the grantee out of the amount so handed over. Such grants will then fall into one or other of two classes, viz. :—

(*a*) those unconditionally handed over without account; and

(*b*) those for which the grantee will account to the Comptroller and Auditor General, although no surrender of balance at the end of the year will be involved.

In a case falling within the first class (*a*), the Comptroller and Auditor General will do nothing more than see that the sum charged against the Grant has been paid by the accounting officer to the grantee.

In the second class of cases (*b*), the accounting officer will be acquitted of the amounts which he has actually paid. But the payee, society, or colony, will render to the Comptroller and Auditor General an account of the application of the money, in order that Parliament may be informed in what manner and how far the money has been spent, and what, if any, balance has been carried forward.

The nature of the Vote in either case should be made clear, not only in the Estimates, but also in the Resolutions in Supply, and in the Annual Appropriation Act.

It might also be taken into careful consideration whether the system adopted in some cases of Grants in Aid for purchases, whereby an unexpended balance can be carried forward in the hands of the grantees to the subsequent year without diminution of the Grant for the later year, might not with advantage be extended to all similar cases. This

would probably remove the danger of money being spent in haste which, if more time were allowed, could be more advantageously employed.

The subject of grants in the nature of subscriptions or contributions, or of (what are technically called) " Grants in Aid," the consideration of which was postponed by the Committee of Public Accounts of 1895 *(Session* 2), *has been examined in detail by the Committee of* 1896. *It is matter of satisfaction to my Lords that the Committee approve in the main the principles which were put forward on behalf of the Treasury, and it only remains for their Lordships to give the necessary directions for bringing future Estimates into accord with the revised arrangement, which has been endorsed by the Committee's approval.*

Accordingly my Lords direct that the Civil Estimates for 1897–98, *when received in the Treasury, shall be reviewed, in order to see whether any of the existing " Grants in Aid " can be dispensed with altogether by treating them as ordinary grants, and how far it is expedient that accounts of the expenditure of the remaining " Grants in Aid " should be rendered to the Comptroller and Auditor General for a non-appropriation audit of a more or less detailed character. The guiding principle of the review will be to limit " Grants in Aid " for* 1897–98 *and future years to cases in which it is intended that the grant shall be handed over to the grantee by the Accounting Officer of the Vote concerned as a free gift, and as a final payment, not subject to surrender of any balance unexpended within the financial year for the service of which Parliament votes the money. Wherever it may be decided that the Comptroller and Auditor General might usefully be asked to follow up the grantee's expenditure of a " Grant in Aid," a note, indicating the fact, should be added to Part II. or Part III. of the Estimate concerned. In every case where an Estimate includes a " Grant in Aid," this should be indicated, according to the practice of recent years, in Part I. of the Estimate; but it is not desirable, nor do my Lords understand the Committee to propose, to qualify such statement in Part I. by a further statement that the expenditure of the " Grant in Aid " is or is not submitted to the Comptroller and Auditor General.*

So far, my Lords have confined themselves to changes in the Estimates. The Committee, however, suggest that consequent changes should be made in the Resolutions in Supply and in the Annual Appropriation Act. Though these latter are under the control, not of the Treasury, but of the House of Commons, my Lords doubt not that, as in the past, the draft supply Resolutions will continue to conform to the wording of Part I. of the Estimates, as submitted to the House; the Supply Resolutions being subsequently repeated in the Appropriation Bill, when introduced.

With the concluding recommendation of the fifth paragraph of the Committee's Report my Lords are in entire agreement. Their experience leads them to the conclusion that a real economy would, as a rule, attend the conversion of purchase grants for museums and galleries into " Grants in Aid," and they will give the necessary directions for effecting the change on the several Estimates concerned for the coming financial year.

APPENDIX No. 16 to Third Report, 1896:—Memorandum on Grants in Aid.

The strictly conditional manner in which provision for Public Services is made by Parliament constitutes one of the cardinal principles of our financial system.

1. Not only may no grants be exceeded without fresh Parliamentary authority, accorded by a supplementary or excess grant, but the only sums which are chargeable against grants must actually come

in course of payment within the financial year to which the grants relate; and consequently any portion of the grant unexpended and remaining in the hands of the Accounting Officer on 31 March is returnable to the Exchequer, the surrender being, for the purposes of convenience, usually effected by a write-off of the unexpended sum against the grant of a subsequent year.

2. The expenditure within the Parliamentary Grants has to be accounted for in detail by the Accounting Officer, and his account of the appropriation of the money, which is called the "Appropriation Account," is directed by Statute to be examined on behalf of the House of Commons by the Comptroller and Auditor General, who has to ascertain and report whether the conditions attaching to the grant have been complied with, and vouchers for payments are forthcoming.

In the case, however, of one form of grant, that is, of grants which are technically called "Grants in Aid," the conditions are less strict. For, while such grants, which are in the nature of subscriptions or contributions, must, like ordinary grants, be paid away within the year by the Accounting Officer, the receipt for the money in the lump, which he obtains from the grantee or grantees, is held to be a sufficient discharge; and the expenditure in detail is not necessarily followed up by the Comptroller and Auditor General. I say "not necessarily;" because in these cases, though the Comptroller and Auditor General is often required, under section 33 of the Exchequer and Audit Departments Act, to examine and audit the account of the grantee, yet his statutory duty, in the absence of such requirement, is confined to seeing that the Accounting Officer is entitled to claim credit for his payment to the grantees.

These Grants in Aid constitute a useful and economical arrangement, when the State, though willing to render some assistance to a service, does not wish to treat it as a Government Service, and also when the expenditure towards which the aid is given is an uncertain quantity and cannot be accurately estimated.

Such grants vary somewhat in their character, and it may be well to give one or two illustrations.

(1) Parliament makes a Grant in Aid of £500 annually to the *Royal Geographical Society*, and the Treasury account for the grant. But, while the Accounting Officer gets his discharge on producing the Society's receipts for the money, neither he nor the Society has to account in detail to Parliament for its actual expenditure. The sum is a pure subscription given by the State to a scientific body, over which it neither has, nor seeks to have, control. In order to justify the subscription, the Society furnishes to the Treasury certified statements of its receipts and expenditure with a short annual report of its proceedings; but its accounts are not examined by the Comptroller and Auditor General, nor would anything be gained by such examination.

(2) Parliament maintains the *National Gallery*, but there is one item or subhead of expenditure which is uncertain, namely, the purchase of pictures; and accordingly that item or subhead is treated as a Grant in Aid. The trustees, who are the accounting officers, merely give their receipt for the money in the lump and thereupon get their discharge, without being required to include in their Appropriation Account the details of the expenditure of the money. Such an arrangement is obviously economical for the State, and convenient for the trustees. For were the money, destined for the purchase of pictures, required to be paid away in the year by the trustees, and any portion of it unexpended to be surrendered, it would only be human nature on their part if, in order to avoid a surrender, they spent the whole sum on pictures, irrespectively of their being really desirable acquisitions to the Gallery. The Grant in Aid, therefore, is a direct inducement to the trustees to nurse their resources. In this case, the accounts of the fund formed by this grant are required by the Treasury to be furnished to the Comptroller and Auditor General for examination, in which respect the National

Gallery is treated differently from the Royal Geographical Society, and with reason. For, while the Society is an independent body and merely receives a subscription from the State, the National Gallery is a Government institution of which all the salaries and expenses are provided by Parliament. Moreover, the Grant in Aid to the National Gallery, unlike the Grant in Aid to the Royal Geographical Society, is intended to be applied to a specific purpose, namely the purchase of pictures.

(3) Some of the poorer or less developed Colonies or Protectorates cannot pay their own way, and accordingly Parliament comes to their assistance with a Grant in Aid, as it has recently done in the case, for example, of *Uganda*. Such a grant, for which in this case the Foreign Office accounts, is a distinct intimation to the Protectorate that it must not look to Parliament for entire support, and that those who are paid out of the grant are not Imperial Officers. Moreover, it is difficult to prepare accurate Estimates of expenditure which is dependent on uncertain local Revenue; and inaccurate Estimates of expenses, which have to be accounted for in detail, must lead to excesses and Supplementary Estimates. It is also difficult to watch and regulate the progress of expenditure which is incurred at a great distance, and cannot be under the close supervision of the Accounting Officer. These difficulties are avoided by asking the House of Commons to sanction Grants in Aid for such purposes. If the Uganda Grant in Aid one year should prove to be in excess of the requirements of that year the Grant in Aid in a subsequent year admits of being reduced, and is reduced. Nor can any misappropriation of the money fail to be brought to the attention of Parliament, inasmuch as the audit of the Uganda Accounts is, under section 33 of the Exchequer and Audit Departments Act, required by the Treasury to be conducted by the Comptroller and Auditor General, who has a special staff for examining accounts of Protectorates and Colonies.*

It is submitted that these explanations about Grants in Aid show that such grants serve a very useful purpose, and indeed cannot be entirely dispensed with. . . .

Class I., Vote 8.—Revenue Department Buildings.

Works not put out to Contract.

6. . . . Your Committee concur in the view of the Treasury that the proceeding of the Department was in these cases irregular, in so far as they undertook work themselves without the concurrence of the Treasury, where only contract work had been sanctioned. The representative of the Department recognized the justness of this view, and assured your Committee that, in the event of any similar case arising, the authority of the Treasury will be obtained before the work is taken in hand otherwise than by contract.

You will observe that the Committee condemn as irregular the action of the Office of Works in undertaking, without this Board's sanction, work which had only been authorized to be performed by contract. My Lords note your assurance to the Committee that previous Treasury authority will be obtained in any similar case in future.

Class II., Vote 25.—Office of Works and Public Buildings.

Gratuity in addition to Salary.

7. Expenditure in excess of the estimate has been incurred under Subhead A., "Salaries," in consequence of the payment, under

* The Comptroller and Auditor-General has now ceased to be responsible for the audit of Colonial Accounts on behalf of the Colonial Governments, and the special staff has been transferred to the Colonial Office. See P.A.C. 8. 1910. 20, at p. 529.

Treasury sanction, of a gratuity of £1,000 to one of the principal surveyors in the Office of Works. This excess, however, does not involve an excess on the whole Vote, by reason of savings to a greater amount effected under other subheads.

In this Department an arrangement obtains in respect of the principal surveyors when engaged upon extensive works which is not usual in the Civil Service, according to which, in addition to their annual salaries, they receive from time to time sums of money by way of percentage or gratuity. No such practice is recognized in connexion with dockyard shipbuilding, nor apparently in any other Department.

The particular officer to whom the £1,000 was paid in the present case is a very efficient public servant who has been engaged on many very large works, comprising some of the best-known buildings of the Post Office and Revenue Departments. In private professional life he would probably have earned a very substantial income.

He entered the Service many years ago on the usual terms of a fixed salary and devoting his whole time to the Public Service, no commission being mentioned.

In 1876 a Committee appointed to inquire into the organization and scales of salary of the Office of Works reported, *inter alia*, that the principal surveyors were from time to time required to design and superintend the construction of large works. The Committee, while entirely disapproving of an allowance to these officers of anything in the nature of a commission upon the expenditure for such works, were of opinion that the Treasury might favourably consider any recommendation which the Board (of Works) should see fit to make for granting a gratuity to any of the officers mentioned for any great work successfully completed under their superintendence.

This recommendation was approved by the Treasury, and appears to have been acted upon between 1876 and 1892.

In the latter year, in reply to a proposal by the First Commissioner of Works that a further gratuity should be granted in respect of works just then completed, the Treasury pointed out that grants to public servants, in addition to their salaries, for work which cannot be said to be entirely outside their official duties, is a departure from the general rule of the Service which can only be justified by very special circumstances, and as a rare exception; and their Lordships laid down certain conditions and limitations to the grant of such gratuities. Amongst those limitations were these two, viz., (*a*) that there must be an interval of at least three whole years between the grant of one gratuity and another to the same officer; and (*b*) that no gratuity should exceed half a year's salary. The Treasury, however, violated their own rule in the very making of it, for in the same letter which prescribed the above conditions they authorized the issue of a gratuity exceeding a half-year's salary.

Within two years and nine months, viz., on 19 December 1894, the First Commissioner of Works submitted another proposal for a further gratuity of 1,000*l.* for one of these officers. The Treasury sanctioned the payment of this amount out of the moneys voted for the financial year 1894–95, in so far as there were savings to meet it, although it greatly exceeded the half-year's salary of the officer in question.

Your Committee do not doubt that this officer is deserving of the grant; neither do they lay stress upon the amount awarded; but the repeated disregard by the Treasury of its own rules and limitations in this case is a matter which naturally calls for comment. It is difficult

to see the use of rules, if they are so set aside when occasion arises for their application.

Another point which challenges attention is the manner in which it was proposed to meet the expenditure, for which no provision was made in the Vote. It was to be defrayed if, or so far as there were, savings to meet it. The representative of the Treasury admitted that "no "doubt the Department exercised a little extra economy so as to find "sufficient money to pay this extra gratuity." Indeed, it is obvious that under such circumstances the temptation would be strong upon the Department to defer to the extent necessary for the purpose any expenditure which could, without inconvenience, be thrown into the following financial year.

Moreover, it was explained to your Committee that even if a portion of the gratuity had been sanctioned during the following year, or a Supplementary Estimate had been necessary by reason of the absence of savings, the real nature of the charge would not have been made clear to Parliament, as the item would have been included in salaries.

Your Committee are of opinion that any such special allowance, over and above the salary which, in the words of the Treasury letter of 11 January 1895, was "fixed as adequate for the duties of the post," should be made known to Parliament in distinct terms.

Their Lordships are of opinion that any such gratuity in future should be shown as a separate item in Subhead A. of the Office of Works Estimate for the financial year following that in which the gratuity is sanctioned by this Board.

CLASS IV., VOTE 1.—PUBLIC EDUCATION (ENGLAND AND WALES), SCHOOL FEES.

10. Under this Vote the Comptroller and Auditor General reports two cases of overpayment of fee grants in respect of which the Treasury have withheld their assent pending the decision of your Committee. . . .

The Comptroller and Auditor General presents the case as one of interpretation of a statute; the Department does not contest the construction of the section in question, viz., section 1 (2) of the Elementary Education Act, 1891, but submits that the equity of the case demands that the repayment of the sums objected to should be waived.

In the case of each of the two schools referred to the managers entered in their annual statement certain weekly or quarterly payments by parents partly under "School Fees" and partly under "Sale of Books." Similar entries have been made by a certain limited number of schools since 1891.

At the request of the Comptroller and Auditor General, the Department instituted minute inquiries with reference to these entries, with the result that it was found in some cases although the parents had the option, if they chose, to claim the books so paid for, yet whether the books were claimed or not, the payment of the price was obligatory. This, it is admitted, brings the case within the provisions of subsection 2 of the 1st section of the Act, the words of which are:

"If in any case there is a failure to comply with any of the conditions in this Act and the Education Department are satisfied that there was a reasonable excuse for the failure, the Department may pay the fee grant, but in that case shall, if the amount received for fees has exceeded the amount allowed by this Act, make a deduction from the fee grant equal to that excess."

The transfer of some of the amounts entered under " Sale of Books " to the heading " School Fees " would in the cases under review have caused an excess over the amount allowed, involving a deduction from the fee grant. . . .

Your Committee have taken exhaustive evidence on the subject, and after careful consideration have come to the conclusion that no payment of the kind should be permitted from 17 June last, the date of the examination by them of the representative of the Department; but that no repayment should be insisted upon in respect of grants actually paid prior to that date. Your Committee arrive at this decision the more readily because the Treasury representative recognized the hardship which would be inflicted on a school if repayment were insisted upon in such a case; and the Comptroller and Auditor General expressed himself satisfied with the proposals of the Department and the settlement now suggested.

To the Education Office.

You will observe that the Committee, while not pressing for repayment in respect of fee grants actually paid before 17 *June* 1896, *consider that thenceforward no payment of the grants should be made, except on the basis of including under fees the proceeds of the obligatory sales of books. You will doubtless be guided by the Committee's opinion in future cases of the character in question.*

The Retirement of Sir Charles Ryan, K.C.B.

Improvement in the Public Accounts since 1866; *Extension of Audit.*

16. The retirement of Sir Charles Ryan, K.C.B. . . . affords a seasonable occasion for noticing the developments of the duties of the Comptroller and Auditor General during the last 20 years, and the admirable results, as evidenced by the Public Accounts, of the arrangements introduced by the Exchequer and Audit Departments Act of 1866. The striking contrast, from the point of view of financial regularity, between the period antecedent and the period subsequent to that measure shows it to have been, in its peculiar field, an epoch-making statute.

For that statute the public are indebted to the late Mr. Childers and to Sir William Anderson; but the credit of carrying the Act into complete operation and of extending its application in many directions belongs to those who have come after them.

It will be remembered that what is known as " appropriation audit," *i.e.*, the audit of accounts on behalf of the House of Commons in order that the House may know that the money which it has voted has been spent exclusively upon the services and within the time for which it was granted, that the grant has not been exceeded, and also how the surplus, if any, has been dealt with, was first applied to Navy Votes in 1832 (under 2 & 3 Will. 4. c. 40), to Army Votes in 1847 (under 9 & 10 Vict. c. 92), to Woods and Works Votes in 1851 (under 14 & 15 Vict. c. 42), and to the Revenue Department Votes in 1861 (under 24 & 25 Vict. c. 93). The work was completed by the extension of appropriation audit to all other Supply grants, and the placing of all public accounts of receipts and expenditure within the purview of the Comptroller and Auditor General by the Exchequer and Audit Departments Act of 1866 (29 & 30 Vict. c. 39).

Since Sir Charles Ryan assumed the position in relation to the Public Accounts Committee which has been already described the following developments have taken place under the working of the Act. The Army test audit was introduced in 1876, the Navy test audit in 1878, the Store audit in 1886, and the audit of the Army and Navy

Manufacturing Accounts and of the Navy Expense Accounts in 1889 (52 & 53 Vict. c. 31).

At various dates, also, test audits of details have been applied to the Revenue Accounts; the present system of appropriating extra receipts in aid of Votes has been introduced; and many non-voted accounts have been submitted to the Comptroller and Auditor General.

All these extensions required careful organization, and imposed on the Audit Office heavy additional work and responsibility, such as could not have been discharged efficiently without great exertions on the part of the heads of the Department, and of the able staff under them.

Besides the increase of statutory duty, your Committee must not omit to mention the extra-statutory work of audit voluntarily undertaken by Sir Charles Ryan on behalf of the Secretaries of State for Foreign Affairs and the Colonies in different protectorates and colonies, and in Cyprus, which in many cases is the means of verifying the due application of Parliamentary Grants in Aid, and thus usefully supplementing Imperial audit.

The effects of the improved financial system are plainly recorded in the Public Accounts. In the nine years from 1868–69 to 1876–77 the number of Civil Service and Revenue Department Votes which were exceeded by the expenditure was 233, or an average of more than 25 annually. During the last nine years, *i.e.*, from 1886–87 to 1894–95, there were only 18 cases of excess altogether. In the last two years there has been no instance of excess.

On the other hand, accurate appropriation and exact audit have enabled the needs of the Public Service to be so nicely gauged that whereas in 1868–69 the surpluses on Votes for Civil Services and Revenue Departments, in spite of the numerous excesses above mentioned, averaged about 3 per cent. on the total grants of the year, the average now has fallen to less than 1½ per cent.

But the real extent of improvement in the Public Accounts during the period which has elapsed since the Act of 1866 was passed cannot be shown by mere statistics. An examination of the Auditor's Reports will show, what the experience of your Committee confirms, viz., a remarkable diminution of controversy on first principles and the disappearance to a great degree of impatience of scrutiny, a sure and honourable testimony to the value of the work, as well as to the discretion and tact of Sir Charles Ryan and his officers.

T.M. 6 October 1898 *on Second Report* 1898.—*My Lords desire, however, to place on record their satisfaction at the remarkable improvement which has gradually been effected in the system of Public Accounts during the last 30 years. The Public Accounts Committee of* 1896 *took the occasion of Sir Charles Ryan's retirement from the office of Comptroller and Auditor General to call attention to the "remarkable diminution of controversy on first principles and the disappearance "to a great degree of impatience of scrutiny" which had characterized that period. Their observations could hardly be confirmed by stronger testimony than the Report of the Public Accounts Committee of* 1898. *Only two points requiring notice have arisen on the Appropriation Accounts for the Civil Services and the Revenue Departments, although those accounts relate to an expenditure of over* £36,000,000, *distributed over no less than* 117 *Votes, accounted for by distinct Departments. My Lords are most conscious that the present state of things is due in no small part to the annual labours of the Committee as well as to the constant vigilance of the Comptroller and Auditor General.*

APPENDIX No. 15 TO THIRD REPORT, 1896.

LOCAL LOANS FUND.—REPAYMENT OF ADMINISTRATIVE EXPENSES.

One of the main objects of the Act of 1887 (50 & 51 Vict. c. 16), which established the Local Loans Fund, was to make the fund a self-supporting fund, which would throw no charge on the tax-payer in connexion with the Local Loans system.

It was accordingly provided that, if in any year the income of the fund should be in excess of the expenditure, the excess should "be "applied in the payment of such sums in respect of expenses in "connexion with Local Loans as the Treasury from time to time "direct;" in other words that the fund should, if possible, be charged with the repayment of the expenses estimated to be incurred by the various public Departments concerned in the administration of Local Loans.

There are two ways whereby this direction of Parliament could equally well be effected, so far as the taxpayer is concerned.

(1) It might be arranged that the Local Loans Fund should reimburse the Exchequer direct, by repaying to it the aggregate of the administrative expenses.

(2) It might be arranged that the fund should reimburse individually each Department which has borne such expenses on its Vote; in which case the repayment would constitute a departmental extra receipt, and as such would under the present system be appropriated in aid of the Vote of the Department repaid.

Resort to the latter course should only be had when the receipt is one that can confidently be reckoned upon, and this is not the case with a receipt which is annually dependent on the necessarily uncertain out-turn of the Local Loans Fund.

Accordingly, it was decided that the reimbursement of the administrative expenses connected with Local Loans would more properly be effected, so far as the fund admitted, by a direct payment to the Exchequer.

The following statement shows the estimated expenses which were so incurred in 1894-95, and which were repaid to the Exchequer by the fund in 1895-96, as will be shown by the Finance Accounts for last year when they are issued. (*Cf.* page 27 of Finance Accounts, 1894-95.)

	£	s.	d.
Public Works Loan Board	4,502	4	3
Law Charges, Ireland	1,290	17	9
Fishery Board, Scotland	426	11	8
Inland Revenue	83	17	0
Exchequer and Audit Department ...	1,042	10	0
National Debt Office	420	0	0
Treasury	500	0	0
Irish Land Commission	12,000	0	0
Public Works Office, Ireland	17,681	0	0
	37,947	0	8

The second of these items was the one on which questions were raised by the Committee of Public Accounts at their last meeting; and it may be well to explain how it came to be noted by the officer who accounts for the "Law Charges and Criminal Prosecutions, Ireland, Vote" (Class III., Vote 15) in his Appropriation Account.

In every estimate presented to the House of Commons, note is made of any anticipated receipt which, though not appropriated in aid of the Vote, may become payable to the Exchequer in respect of some service rendered by the Department having charge of the Vote.

Similarly in every Appropriation Account, note is made of any realized receipt which, though not appropriated in aid of the Vote, has become payable to the Exchequer in respect of some service rendered by the Department to which the account relates, in order that credit may be taken for such receipt as a set-off against the expenses charged in the account.

E. W. Hamilton.

Treasury Chambers, 26 June 1896.

SECOND REPORT, 1897. H.C. 196.*

Treasury Minute, 31 December 1897.

REVENUE DEPARTMENTS (INCLUDING POST OFFICE, PACKET AND TELEGRAPH SERVICES).

Audit of Receipts.

1. Several matters which have arisen in connexion with the Accounts under review have directed the attention of your Committee to the question of the amount of check which the Comptroller and Auditor General is enabled to exercise on behalf of Parliament over the receipt side of the Accounts of Revenue.

The importance of the question is well illustrated by three different cases herein-after set out under the head of Inland Revenue. Before considering these cases, however, it may be well to point out how the audit of the receipt side of an account necessarily differs from that of the expenditure side.

2. An auditor can only apply his check to transactions referred to in the accounts rendered to him, or recorded in the books and documents to which he has access. Hence a marked difference in the two cases of receipts and expenditure; while, as regards receipts, some precautions may be needed against possible temptations to suppress or omit items of receipt, no danger of a similar kind need be feared in the case of expenditure. In connexion with the latter the Accounting Officer will not fail to obtain credit for the payments which he has made; and no sum for which the Accounting Officer claims credit can, in the case of detailed audit of expenditure, escape the auditor's criticism. But in the case of receipts the position of the auditor is different. Here also his examination can be applied only to sums which are upon record in the accounts or books of the accounting Department; but he has no means of knowing whether these records exhibit the whole of the moneys collected; much less can he ascertain whether or not any moneys are unclaimed which ought to have been claimed. In the case of certain fixed amounts, such as rents, dividends, &c., the auditor does of course ascertain that the proper sums are brought to account; but as a general rule the test applied to the receipt side of the Revenue Accounts must of necessity rest upon the Departmental Returns, and the documents which accompany them. Thus it would be manifestly impossible for the Comptroller and Auditor General to superintend the administrative action of the Customs, so as to ascertain that in every instance the duty payable was actually recovered; and in the case of the Inland Revenue there is no machinery existing or possible which would enable him to state that all persons liable at law had been duly charged. These functions belong (by statute) to the Revenue Boards themselves.

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* This Report was issued with imprint 166, but 196 is the correct number.

3. The test examination of the Revenue is undertaken by the Comptroller and Auditor General, in accordance with the 33rd section of the Exchequer and Audit Act, which is in these words:—

> "33. Besides the Appropriation Accounts of the Grants of Parliament, the Comptroller and Auditor General shall examine and audit, if required so to do by the Treasury, and in accordance with any regulations that may be prescribed for his guidance in that behalf by the Treasury, the following Accounts, viz., the Accounts of all Principal Accountants, the Accounts of the Receipt of Revenue by the Departments of Customs, Inland Revenue, and Post Office, the Accounts of every Receiver of Money which is by Law payable into Her Majesty's Exchequer, and any other Public Accounts which, though not relating directly to the receipt or expenditure of Imperial Funds, the Treasury may by Minute, to be laid before Parliament, direct."

4. In order to secure that supervision of public moneys which was contemplated by Parliament, this section casts upon the Treasury the duty of laying down regulations for the guidance of the Comptroller and Auditor General in his examination of the accounts mentioned. In testing the revenue side of the accounts, the Comptroller and Auditor General first ascertains that there are administrative regulations and procedure which appear to be sufficient to secure a proper and effective check upon the due assessment and collection of the revenue. Having ascertained that these effective regulations exist, he next satisfies himself, within the limits of a test examination, that they are enforced by the Department.

INLAND REVENUE.

A.—Gratuity for Special Services.

7. Amongst the charges against the Vote is one of £50, the amount of a gratuity to a principal clerk in the Glasgow Collection for "special services in recovering death duty." It was explained to your Committee that this officer "had distinguished himself by instituting inquiries in his spare time, and upon his private responsibility," "whenever he "considered there had been a loss;" that he afforded valuable information resulting in the "recovery of death duties which he was not bound "by his ordinary duties to look into;" that "he had shown by his own "exertions what the revenue officials had not discovered, and probably "would not have been bound to discover, or could not have discovered "very well;" and that "he was the means of bringing a considerable "amount of duty into the revenue," which duty but for his special service would not have been collected.

No specific information was furnished as to the particular steps taken by the officer in question, or as to the reasons why the recovery of the duty might not have been secured by the ordinary administrative machinery. In the absence of such information your Committee are not prepared to question the propriety of this gratuity as a reward for the zeal, and perhaps the merit, of the recipient. It is, however, obvious that such a reward can be justified only under very exceptional circumstances. The representative of the Department did not consider that anyone could be held to have been negligent in his work, or that the gratuity involved any reflection on the ordinary working of the service. But the incident naturally suggests a query as to the efficiency of the existing system of collection; and such a mode of recognizing official merit might, if drawn into a precedent, be likely to become as much a premium on ordinary official laxity as an incentive to individual private enterprise.

As regards efficiency of collection, it cannot of course be claimed that every penny of revenue payable in the United Kingdom is actually collected. All that can be expected is that, in dealing with individuals, no reasonable efforts should be wanting on the part of the public officials to levy payments due to the State. For their own part, my Lords have every belief that such reasonable efforts are made by the Revenue Boards and by their staff. But beyond such limits there may well be a varying, and (my Lords hope) a decreasing, proportion of cases in which exceptional efforts and ability are required in order to establish the State's claims.

At the same time, their Lordships readily agree that to establish a general precedent for immediate pecuniary reward in cases of exceptional effort might well tend, as the Committee suggest, to lower that standard of reasonable effort which is required of every public servant. My Lords are confident that no case will be submitted to them by the Revenue Boards for a gratuity unless the circumstances are of a wholly special character.

B.—Losses by Fraud, Default, and Accident.

8. During the period of the Account under review, two cases occurred of defalcations by absconding collectors of taxes. In the first case, involving a loss of £22 14*s.* 9*d.*, no security had been taken, and the amount was in strictness legally recoverable by a second assessment. The Treasury, " having no statutory power to authorize the abandon- " ment of the claim against the taxpayers, could only relieve them by " directing that the loss should be made good to the Exchequer by a " charge against the Vote." This course was sanctioned by a Treasury Letter of 9 September 1895, and a note to that effect appears in the Appropriation Account.

9. No such note appears with reference to the second case, in which the amount embezzled by the absconding collector was £264 18*s.* 6*d.* Of this sum, £150 was covered by security, the balance representing loss to the Revenue, being £114 18*s.* 6*d.* By the letter of 9 September 1895, above-mentioned, the Treasury at first authorized the charge against the Vote of this sum also. If this course had been adopted, a note similar to that made in the former case would have brought the matter to the attention of Parliament. On 16 May 1896, however, the Treasury by another letter cancelled the authority contained in the former, respecting the £114 18*s.* 6*d.*, and directed that, instead of appearing as a charge against the Vote, the loss should be dealt with by writing off the amount from the Account of the Revenue.

The Appropriation Account deals with the Vote only, and as the mode of adjustment adopted in this case was entirely outside the Vote, no mention was made of it in that Account. The representative of the Department stated that the failure to make a special reference to it was the result of mere inadvertence.

The books and other documents of Account to which the Comptroller and Auditor General has access, contained, however, a record of the transaction, and enabled that officer to embody the facts of the case in his Report, in accordance with the opinion expressed by the Committee of Public Accounts in 1884, and again in 1886, that all cases of defalcation, resulting in the loss of public money, should be brought under special notice.

10. Your Committee fully endorse the recommendation of their predecessors, and are of opinion that where a loss is dealt with by way of

write-off against Revenue, a note to that effect is peculiarly needed. The Appropriation Account, though it deals exclusively with the Vote, is the sole means of bringing to notice such losses of revenue as these; and while a charge speaks for itself, and must of necessity be included in the Appropriation Account, it is otherwise where a loss is dealt with quite outside that Account.

The Committee point out the omission of a note explanatory of the writing-off of a net sum of £114 18s. 6d. from the account of Inland Revenue. In the special circumstances of this case, such a note had been directed by the Treasury to be made on the Appropriation Account of the Vote for Inland Revenue, but by inadvertence on the part of the Accounting Officer the note was omitted. No further observations are required on this particular instance.

On the general question my Lords desire to offer some observations and suggestions. The Committee had before them two cases of losses caused by the default of absconding collectors.

In the one case the collector happened to be an officer appointed by the local Commissioners. Consequently the loss was legally recoverable by a second assessment of the locality. A second assessment was not considered feasible; but it was held that the taxpayers could not be relieved except by a direct charge against the Vote, whereby the loss would be made good to the Exchequer.

In the other case the collector was an officer for whose appointment the Government was responsible. This being so, there could be no question of enforcing a claim against the locality; and the consequence was that the loss, not being recoverable, was written off from the account of the Revenue.

There is, no doubt, a distinction between the two cases; but it is a distinction without much practical difference, and one which is not easily understood. It appears to my Lords difficult to defend a different way of treating the cases; and the proposal which they would make is that all losses to Revenue hereafter arising from defalcations of collectors, no matter how they are appointed, should be charged against the Vote of the Revenue Department which the loss affects.

Such a course is no doubt open to the objection that it tends to increase the number of instances in which money is voted for the purpose of being paid into the Exchequer, and thus to swell unnecessarily both sides of the account. But my Lords are of opinion that this objection is more than counterbalanced by the advantages to be derived, not only from uniformity of treatment, but from ensuring publicity, both of which are important considerations. Moreover, by this means the risk of any inadvertent omission to bring such cases before the Committee of Public Accounts would be obviated, inasmuch as the loss of Revenue would then be necessarily noted in the Appropriation Account.

C.—Alexander III., Emperor of Russia, deceased.—Death Duty.

11. The third case which your Committee feel called upon specially to notice in connexion with the question of the functions of the Comptroller and Auditor General in relation to revenue arises in relation to the estate of His late Majesty the Emperor of Russia.

The Emperor Alexander III. died on 1 November 1894.

12. In the month of April following, the question was raised by the Russian Embassy whether any duties were payable in respect of the property, and the Treasury referred the matter to Somerset House. . . . . The opinion of the Inland Revenue authorities (the original terms of which, dated Legacy and Succession Duty Office, 26 April 1895,

are set forth in Appendix 4 to the present Report*) was to the effect that estate duty was payable at £6 10*s.* per cent., under the provisions of the Finance Act, 1894. A letter embodying the opinion was sent to the Treasury on 30 April, and a copy of this letter was forwarded by the Treasury to the Foreign Office with an intimation that the law must take its course. " Thereupon," to use the words of the Assistant Secretary to the Treasury, " the Russian Ambassador made a representa-
" tion first to the Treasury, in fact, to me individually, and then to the
" Chancellor of the Exchequer personally, on the ground that the
" exaction of duty in respect of property belonging to a foreign
" Sovereign was hardly consistent with the rules governing international
" comity, under which, for instance, special privileges connected with
" Customs duties for fully the last 200 years are accorded to representa-
" tives of foreign Sovereigns in this country. The then Chancellor of
" the Exchequer admitted the force of the Russian Ambassador's
" contention; but it was not at the time clear how the difficulties could
" be surmounted."

The Assistant Secretary to the Treasury subsequently explained that when he used the word " difficulties," he referred to the fact that the Treasury had no power to remit the duty. . . .

13. Such precedents as existed were cases of payment, not of exemption. This particular case is not distinguishable from that of the King of Portugal, who died in 1889, and whose representative paid the duty without discussion. In 1888, the late Italian Ambassador claimed exemption from probate duty; but the claim was not admitted, and the duty was paid, without any communication to the Treasury.

Later still, in the case of the Turkish Ambassador, Musurus Pasha, although the furniture and effects in the house, and the horses and carriages in the stables and coach-houses were held to be exempt, as being within the curtilage of the Embassy, yet the duty was recovered on stocks, funds, and securities, which were outside the Embassy.

14. In this situation it was intimated to the Treasury that the Bank which held the property now in question was prepared to hand it over to the representative of the late Czar, without requiring letters of administration to be presented (the obtaining of which would have involved the payment of duty), provided that the Treasury would take no exception to that course. Accordingly a written communication was sent to the Bank " that so far as the Treasury was concerned the Bank was
" authorized to transfer to the present Emperor the property belonging
" to His late Imperial Majesty."

Without such a communication the Bank would not have transferred the property; of this the Treasury was aware when the authority was given. . . .

17. Your Committee are not called upon to formulate an opinion on the question of the propriety, in view of international comity, of securing the transfer, without payment of duty, of the property held by the Bank; but when such transfer was decided upon, whatever steps were necessary to make the proceedings regular and to secure an adequate record of them should have been taken.

Within the period of the present accounts, in the case of a small gratuity to a Customs writer which, though in accordance with the regulations in force at the time of his appointment, was not in accordance with the provisions of the Superannuation Act, 1887, subsequently passed, the Treasury, when sanctioning the " extra-statutory " payment directed the Accounting Officer to communicate the fact to the Comptroller and Auditor General.

* H.C. 196/1897, p. 97.

Your Committee are of opinion that when the Treasury decided to countenance what was not only " extra-statutory " but actually against the law, and by executive act to dispense with a payment to the Exchequer which they had no power to remit, they should have likewise communicated the facts of the case to the Comptroller and Auditor General, who could, if he thought necessary, have brought them under the notice of Parliament.

18. The Assistant Secretary to the Treasury admitted that in cases in which the Treasury dispensed with the payment of duty of any kind where a material sum was involved it would be proper that the matter should be made known to Parliament, or to the Comptroller and Auditor General.

This is in harmony with the opinion expressed by the Public Accounts Committee in 1883, and with the express terms of a Treasury Minute of the same year.* In that Minute the Lords Commissioners of the Treasury remark, " That in their opinion any abandonment of a " claim due to the public which involves an important principle or an " amount of magnitude may properly be made the subject of ratification " by Parliament, as in the case of the remission of a claim against " India, for which the sanction of Parliament was formally obtained in " 1882. They would be unwilling, however, to lay down a general rule, " which would cover a great number of small remissions of no signi- " ficance in principle or amount. Such cases, it seems to them, may " properly be left to the Treasury to decide. The Comptroller and " Auditor General will doubtless call attention to any cases which, in " his opinion, deserve notice. The Committee (*i.e.*, the Committee of " Public Accounts) may, therefore, rely upon receiving warning, if the " Treasury exercise their discretion in a questionable or improper " manner. My Lords would see no objection to laying before Parliament " a list of all claims of which they have, during the year, authorized " the abandonment."

19. It is true that this Minute had reference more directly to the abandonment of claims in respect of overpayments already made; but your Committee are unable to discover any principle upon which the two classes of cases can be distinguished. They are clearly of opinion that whenever a dispensing power is exercised by, or with the sanction of, the Treasury, involving any important principle or substantial amount of money, whether by remission of loan, or waiver of right to recover overpayment, or abandonment of claim on account of revenue, a statement of the fact should be presented for the information of, and, where necessary, for ratification by, Parliament.

Paragraphs 11–19 *relate primarily to the case of the estate of His late Majesty, the Emperor of Russia, in respect of which Estate Duty was, by direction of the late Board, not exacted. As the Committee elicited a full explanation of this case, and as it was discussed at considerable length in Committee of Supply on* 18 *June last, my Lords do not think that they need revert to it, resting as it did upon privileges claimed and admitted on international grounds.*

In concluding, however, their observations on the case, the Committee raise a general question of importance; and to the recommendation, which they make in paragraph 19, *my Lords feel bound to give special attention.*

The Committee say:—" They are clearly of opinion that, whenever " a dispensing power is exercised by, or with the sanction of the " Treasury, involving any important principle or substantial amount of

* See pp. 158-4.

" money, whether by remission of loan, or waiver of right to recover " overpayment, or abandonment of claim on account of Revenue, a " statement of the fact should be presented for the information of, and " when necessary, for ratification by, Parliament."

It has long been provided by Act of Parliament (e.g., Public Works Loans Act, 1875, 38 & 39 Vict. c. 89, s. 33) that " every sum payable " in respect of a loan . . . shall be compounded for or released " only under the authority of Parliament in each case "; and any disregard of this direction would be detected and reported by the Comptroller and Auditor General. Accordingly, the course recommended by the Committee as regards a " remission of loan " is already in force.

In alluding to a " waiver of right to recover overpayment," the Committee refer to cases in which a Department may have made a payment in excess of the limit prescribed by law or regulations, and in which, if good reason can be shown for not insisting on the recovery of the money, the Department has obtained the leave of the Treasury to forgo the claim. In these cases the Treasury requires that the remissions should be recorded or stated in the Appropriation Account; and the Comptroller and Auditor General is accordingly able to comment on them in his Annual Report as not properly chargeable against the grant, like any other unauthorized payment, leaving it to the Committee to report in favour of the admission or disallowance of the sums in question. Parliament is thus apprised of all concessions of this nature; and this being so my Lords submit that the point made by the Committee with respect to the exercise of any such waiver of right as that to which their Report refers is already met.

There remains to be dealt with the case of the exercise by the Treasury (or Revenue Departments) of a dispensing power by the " abandonment of a claim on account of Revenue." This question is one which raises delicate considerations, and one which has engaged the careful consideration of more than one Board of Treasury. The Committee are of opinion that a statement of the fact that any such claim has been abandoned " should be presented for the information of, and, where necessary, for ratification by, Parliament "; and my Lords are not only anxious, so far as is possible, to defer to this expression of opinion, but they are also prepared to admit that the present manner in which the dispensing power is exercised is not in all respects satisfactory.

The cases in which a dispensing power may be exercised may be said to fall into two categories:—

(1) *A remission may be founded on a fixed principle of general application affecting classes.*

(2) *A remission may be made in favour of individuals from motives of equity or from compassion.*

My Lords are of opinion that remissions belonging to the first category should, whenever possible, be made the subject of specific legislative enactment; and they will undertake to place any such case on a statutory footing at the earliest opportunity.

The case, however, is very different with remissions in favour of individuals. Such remissions must depend on an infinite variety of circumstances, which could not be defined by Statute; and the only substitute for the exercise of a dispensing power would be a general discretionary power conferred on the Treasury by Parliament. But, if such a power were granted, every aggrieved taxpayer might appeal for an exercise of it in his favour; and thus the collection of Revenue might

not only be seriously impeded, but seriously endangered. My Lords submit that such a course would be highly inexpedient; and they cannot but think that the Committee itself will agree with them in this opinion. They proceed, therefore, to consider how far they are able to concur in the recommendation contained in the last paragraph of the Committee's Second Report.

My Lords must frankly admit that they do not see how claims to duty abandoned in favour of individuals could be made the subject of "ratification by Parliament." Such cases could not be presented to Parliament for many months after the remission had been obliged to be made. Parliament could not be expected to ratify them by a Vote except on a full explanation of the circumstances of the individual cases, which might be very numerous. If it declined to ratify, there might be no means of recovering the amounts remitted.

But what could be done, and what in my Lords' opinion should be done, is that each Revenue Department should keep a record or schedule of every case in which they had seen fit or felt compelled for good reason to refrain from enforcing the law; that in the Schedule there should be a brief description of the circumstances; and that, as regards all such cases as involved a loss to the Revenue of £50 or more, a copy of the Schedule, with the description, but without, of course, any disclosure of names, should be annually furnished to the Comptroller and Auditor General. It would then be within his power to report to the Committee of Public Accounts any case which involved a decision seriously opposed to recognized practice, or which seemed to involve any really new or questionable principle.

My Lords are sure they may rely upon the Comptroller and Auditor General to use his discretion with care and tact; and they have no doubt that the knowledge that he was cognizant of the manner in which the dispensing power was exercised, and might report to the Committee any case in which he considered that the particular exercise of the power ought to be brought to the knowledge of the Committee or of Parliament, would of itself act as a check against any undue inclination to leniency on the part of the different Revenue Departments, without (as my Lords hope) seriously aggravating the difficulties which necessarily attend the administration of the Revenue laws.

THIRD REPORT, 1897. H.C. 274.

Treasury Minute, 30 September, 1897.

Military Forces Localization (Final).

Mode of Disposal of Unexpended Balance.

5. In this case also the Account under notice is the final Account. The total amount authorized and issued from the Consolidated Fund was £3,500,000.

The total expenditure has been £3,499,024 3*s.* 2*d.*, and the unexpended balance, viz., £975 16*s.* 10*d.*, remains to be surrendered to the National Debt Commissioners.

In like manner, my Lords request that the balance of £975 16s. 10d. may be now transferred to the National Debt Commissioners, for the same purpose [i.e., for the redemption of debt].

TREASURY Memorandum, dated 6 April 1897, appended to P.A.C. 2. 1897 (H.C. 196/1897), p. 97:—

At the last meeting of the Public Accounts Committee, the Chairman expressed a wish to know the opinion of the Treasury as to the effect of section 7 of the Act 35 and 36 Vict. c. 68, upon the question of the disposition of the unexpended balance of the Military Forces Localization Loan Fund. That section enacts that "the Treasury may, from time to time, as they think fit, repay to the Consolidated Fund all or any portion of the moneys issued thereout for the purposes of this Act, and may, with a view to provide moneys for such repayment, raise any sum," &c.

The Chairman suggested that the above words may be read as mandatory upon the Treasury to repay any balance of the Loan to the Consolidated Fund, in the absence of some special reason to the contrary.

The section in question is to be found, in a more or less similar form, in all of the Loan Acts that have been so frequent of late years, *e.g.*:—

The Fortifications Loan Act, 1860, 23 & 24 Vict. c. 109, s. 3.
The Imperial Defence Act, 1888, 51 & 52 Vict. c. 32, ss. 3 and 6.
The Naval Defence Act, 1889, 52 Vict. c. 8, s. 2. (5).
The Barracks Act, 1890, 53 & 54 Vict. c. 25, s. 7.
The Naval Works Act, 1895, 58 & 59 Vict. c. 35, s. 5.
The Uganda Railway Act, 1896, 59 & 60 Vict. c. 38, s. 2.

Each of those Acts requires the Treasury to issue certain moneys from the Consolidated Fund for specified purposes, and then gives a discretion to the Treasury to replace those moneys in the Consolidated Fund, so far as they think fit, by borrowing. It is a provision for the replenishment of Exchequer balances when the Treasury holds that the issues under the Act have unduly depleted them.

The section has no reference to the disposition of an unexpended balance remaining to the credit of the fund after the closing of the Account. The view that it has any such reference seems to be forbidden by the discretionary character of the provision, and by the power given to borrow for the purpose of repayment.

It is rare for a Loan Act to prescribe the mode of dealing with an unexpended balance; but there is one instance of it, viz.: the Naval Defence Act, 1889, which, by sections 2 (8) and 3 (4), directed that any such balances should be applied as part of the new Sinking Fund.

When a balance accrued on the old Fortification Loan of 1860, and following years (23 & 24 Vict. c. 109, &c.), the Treasury took special Parliamentary authority by section 20 of the Act 45 & 46 Vict. c. 72, to employ it in reducing the terminable annuities created under the Fortification Acts.

In theory, the perfect way of using such a balance is in cancelling the debt created under the Loan Act. If that be inconvenient or impossible, the next best thing to do is to cancel some other kind of debt. But it would ordinarily not be illegal to pay the balance into the Exchequer as Miscellaneous Revenue, as was done with a small balance on the Naval portion of the Imperial Defence Loan, 1888, last year.

It may be that the whole of the money raised under the Loan Act has been repaid before the closing of the account, out of the Old or New Sinking Fund (*see* Ports and Coaling Stations Account, 1895–96). If so, some other debt is outstanding which would otherwise have been repaid from those Sinking Funds.

In every case, the unexpended balance on the Loan Account proves that rather more debt has been created under the Act than was really requisite. Therefore the most economical use of the unexpended balance is to pay it to the National Debt Commissioners for the cancellation of debt.

Military Works carried on in Anticipation of a Loan.

Treasury Memorandum, dated 7 April 1897, appended to P.A.C. 2. 1897 (H.C. 196/1897), at p. 98:—

Lord Lansdowne's Memorandum on the Army Estimates, 1896-97, dated 5 March 1896, informed Parliament of the actual exhaustion of the Imperial Defence Act Loan of 1888, and of the virtual exhaustion (in the sense of total appropriation) of the Barracks Loan of 1890, and announced that a further Loan was contemplated for urgent services that must be proceeded with for Imperial Defence, and for a steady prosecution of barrack reconstruction as well as for the acquisition of rifle ranges.

The drafting of the requisite Loan Bill was begun in May, and the last revise of it, in 1896, is dated 14 July, but pressure of other business prevented its being introduced. The resolution on which it was to be based seems to have been given notice of, but was dropped before it had been proposed.

It was not until 10 August, the last day of Supply in the Session of 1896, and only four days before the prorogation of Parliament, that the Treasury received from the War Office a schedule of the works that were being carried on, either as remanets from the Imperial Defence Loan of 1888, or as services which had been provided for partially in Army Votes prior to 1 April 1896, but had been dropped from the Estimates for 1896-97, in anticipation of their inclusion in the new Loan. The expenditure on these works in 1896-97 was estimated at £83,392, consisting of—

	£
Continued from Imperial Defence Loan, 1888	17,248
Continued from Army Estimates, 1895-96	66,144
	£83,392

The War Office stated that it would, perhaps, be practicable to stop some of the expenditure provided for in the above estimate, but that course was from every point of view much to be deprecated, and from general experience it would lead to increased expenditure in the end.

The Treasury, in a letter of 29 August 1896, expressed great regret that no explicit notice had been given to Parliament, either in the Army Estimates for 1896-97, or in the Memorandum of the Secretary of State, already mentioned, of the continuation of these works in anticipation of the Loan. Under the circumstances, however, there was no practicable alternative to authorizing the continuation of the works out of Army balances pending the next Session of Parliament, when it would have to be decided, before 31 March 1897, whether to submit a Supplementary Estimate for them or to provide for them in a Loan Act with retrospective effect. The latter mode of provision was that eventually decided upon.

Further correspondence ensued, with the result that all the works described in August 1896, as continued from Army Estimates, 1895-96, which, on close examination, could not fairly be regarded as New or Supplementary Works, and which amounted to £15,630, were excluded from the New Loan, and will be paid for from savings on Army Vote 10, 1896-97 and 1897-98. Thus the new Loan, under the Military Works Act just passed, will be appropriated exclusively to works charged on moneys provided under Loan Acts, without any interim charge on Votes, which would have entailed the inconvenient result that part of the same expenditure would be charged in one way (*i.e.*, on income), and part of it in another way (*i.e.*, on capital).

The Act is retrospective to 1 April 1896; and the charge incurred in anticipation of the new Loan between that date and the passing of the Act may now be estimated as follows:—

	£
Continued from Imperial Defence Loan, 1888	17,248
New or Supplementary Works, including some added subsequently to August 1896	53,752
	£71,000

The arrangement is no doubt open to criticism; but few people would hold that Her Majesty's Government ought to have stopped the works, when it was found impossible to obtain the desired legislation in 1896, and it had become too late to present a Supplementary Estimate in that Session. Parliament had given repeated testimony of its approval of the schemes under which the works were being carried out, and their continuation was presumably in accordance with the desire of Parliament.

A somewhat similar course was followed in 1895 and 1896, in connexion with the Uganda Railway. In August 1895 a Vote of £20,000 was obtained for preliminary expenses of the line. Before the close of 1895–96, £20,000 more was advanced from the Civil Contingencies Fund, and between 1 April and 14 August 1896, when the Railway Loan Act was passed, £65,000 more was advanced from the same fund, and £62,000 from the Treasury Chest Fund, to meet current expenses, in anticipation of the covering sanction ultimately given by section 1 of the Act, which applies the moneys issued under it to the cost of the construction of the railway "whether incurred before or after the passing of this Act."

Army Ordnance Factories (Appropriation and Annual Accounts).

Supplies Suspense Account.

9. . . . The net surplus arising is thus £42,334 11*s.* 1*d.* This last mentioned sum, added to the credit balance of the Supplies Suspense Account, viz., £64,727 16*s.* 5*d.*, gives a total of £107,062 7*s.* 6*d.*

By the rules proposed by the Treasury for the limitation and use of this balance the maximum amount was fixed at £65,000. Nearly the whole of the present surplus would accordingly appear available for surrender. The War Office authorities explain that as regards £26,936 6*s.* 3*d.* this surplus is only apparent, and arises from a temporary decrease in the value of stores in stock, and other slight fluctuations. The remainder, viz., £15,398 4*s.* 10*d.*, will be surrendered to the Exchequer. The ascertained balance of the Supplies Suspense Account will then stand at £272 3*s.* 7*d.* below the authorized maximum.

My Lords record that the sum of £15,398 4*s.* 10*d. was transferred to the Exchequer on* 28 *May* 1897, *as requested in Treasury Letter of* 17 *April last, in respect of the surplus on this account.*

A statement of the accumulated balance of surpluses on the Suspense Account will be inserted in future Appropriation Accounts of the Ordnance Factories.

FOURTH REPORT, 1897. H.C. 314.

Treasury Minute, 30 September 1897.

NAVY APPROPRIATION ACCOUNTS.

VOTE 9.

Payment in Excess of Contract Rates.

2. In the course of the examination of this Vote it was found that the Admiralty had, on departmental authority only, varied the rates for a certain contract, and had paid a firm of contractors at £48 10*s.* per 100 for shells which had been tendered for at £37 10*s.* per 100. This involved an extra charge against Navy Votes in excess of contract rates, amounting to £840. The ground upon which the concession was made appears to have been that it was but an equitable correction of a *bona fide* mistake in tendering.

As it did not appear clear to the Comptroller and Auditor General that a Department was invested with an unfettered discretion in such cases, that officer referred the matter to the Treasury. The Treasury, under the special circumstances of this particular case, sanctioned the charge, but laid down the rule that every case in which it is proposed to make payment, as an act of grace, in excess of contract rates, is to be submitted for the approval of that Board. In this decision of the Treasury your Committee entirely concur.

The Board of Admiralty will observe that the Committee concur in the opinion expressed in Treasury Letter of 27 August 1896, that such payments should be submitted for the previous approval of this Department.

STORE ACCOUNTS OF THE NAVY.

Stocktaking at Devonport Dockyard.

4. In connexion with the stocktaking returns of Devonport Dockyard, 1895–96, a case came under notice which revealed what your Committee cannot but regard as a serious irregularity. In accordance with directions forwarded from the Admiralty a survey of certain items of stock was made between 22 May and 3 June 1895. This survey apparently disclosed a considerable number of discrepancies. Before reporting to the Admiralty the local officers, on local authority only, carried out a re-survey on the 25 and 26 June, by which the original differences were removed or reduced. The results of the re-survey alone were submitted to the Admiralty, although the account of stocktaking bore a certificate that stock was taken between 22 May and 3 June, the period of original survey.

It was explained to your Committee that the discrepancies shown in the first survey were more apparent than real, and due perhaps to the inexperience of a stocktaker, who was new to the work. The irregularity of the proceeding, however, was admitted, and your Committee are informed that instructions have been given by the Admiralty which will prevent the recurrence of it.

The error in this case lay in the failure to correctly state what had been done. If a first survey has been made with manifest inefficiency, it is right to make a re-survey, but both should be reported under their proper dates.

Omission to give Date of Receipt on Store Issue Notes by Store Drawer.

5. The Comptroller and Auditor General submits that persons who draw ordinary Naval Stores from the storehouses should be called upon to append to the Issue Notes below their signature, on receipt of the stores, the dates upon which they obtain the articles demanded. The present system is that the drawer presents a demand voucher, in duplicate, receipted, but not dated, upon which when the stores are issued the storehouseman is required to stamp the date of issue. The original is retained by the storehouseman, and the duplicate is handed back to the drawer, who takes it for inspection to the officer in charge who demanded the stores. The two copies are subsequently posted in separate ledgers, which are compared from time to time.

The Admiralty decline to accept the suggestion made by the Comptroller and Auditor General on the ground that the existing check is practically sufficient, and that to require the drawer, who is generally a labourer, to insert the date would be as likely to cause as to prevent mistakes. In this view they appear to be supported by the Treasury. (*See Appendix No. 1 at page 59 of H.C. 314/97.*)

It appears to your Committee that in point of principle the position of the Comptroller and Auditor General is correct, and that there is much force in his observation that a drawer of stores could not be certain in advance of obtaining all the materials included in his demand.

In view, however, of the strong adverse opinion expressed by the Admiralty, your Committee are not disposed at present to press the point, which in the meanwhile will not be lost sight of by the auditing officers.

The Committee are evidently not convinced by the arguments of the Treasury Letter of 19 May 1897, although they refrain from pressing, at present, that the store drawer should append a date to his signature. The reasons for which my Lords decided that this date may be dispensed with, belong to the field of practical convenience, not of principle; and if experience proves that the omission leads to abuse, they will be ready to reconsider their decision.

SECOND REPORT, 1898. H.C. 261.

Treasury Minute, 17 October 1898.

ARMY APPROPRIATION ACCOUNT.

APPROPRIATIONS IN AID. VOTE 1.

Unclaimed Effects of Deceased Officers.

2. By the combined operation of section 10 of the Regimental Debts Act, 1893 (which re-enacts the provisions of section 18 of the Act of 1863), and the Royal Warrant of 22 August 1893, it is provided that unclaimed effects of deceased officers . . . in the hands of the Secretary of State for War shall be advertised in the "London Gazette" for six successive years before being "applied in or towards the creation or maintenance of" the "Soldiers' Effects Fund," administered by the Commissioners of the Patriotic Fund. . . .

My Lords understand that, for the future, these effects will be advertised for six years, and then credited to the Soldiers' Effects Fund

and transferred to the Patriotic Fund Committee, in the same manner as the unclaimed effects of deceased soldiers. This transfer, however, does not bar the claims of relatives if subsequently proved. In such a case, the sum transferred to the fund is recovered by abatement from a subsequent transfer, and issued to the legal representatives of the deceased.

VOTE 14.

Grant of Retired Allowances to Officers taking part in the Transvaal Raid.

3. Colonel F. W. Rhodes, an officer on half-pay, Captain R. White, Captain Raleigh Grey, Major H. F. White, and Major Sir J. C. Willoughby, officers lent for service in South Africa, were engaged in the incursion into the Transvaal under Dr. Jameson in December 1895.

Colonel Rhodes was sentenced to death at Pretoria, but the sentence was ultimately commuted.

The other officers above named were tried in London in July 1896, for offences under the Foreign Enlistment Act, and on conviction sentenced to different periods of imprisonment.

After the trial all the officers were required to resign their commissions. But in spite of the sentence of the civil court, these officers are regarded by the War Office as retired under Article 101 of the Royal Warrant, the terms of which are as follows:—

> "An officer who has not been guilty of misconduct may, at any time, should the circumstances of the case in the opinion of Our Commander in Chief require it, be called upon to retire; and the rate of his retiring allowance, if any, shall in such case be determined under Article 592 (c) and (*d*)."

Article 592 (so far as relevant) is as follows:—

> "An officer removed from Our Army, under Articles 99, 101, 469, or 470, shall be dealt with in regard to retiring allowance under the following rules:—
>
> (c) In cases where the officer is called upon to retire for reasons other than misconduct, under Articles 101 or 470, he may, provided he has completed a period of service qualifying him for a gratuity or retired pay, and provided that, in the case of a European combatant officer, all the conditions as to voluntary retirement (referred to in Article 507) are fulfilled, be granted such a rate of gratuity or retired pay as Our Secretary of State, on the recommendation of Our Commander in Chief, may decide."

4. On the ground that the cases of these officers fell within the terms of the above Articles, the following awards at full rates were made to them in respect of retiring allowances:—

Retired pay, £300 a year to Colonel Rhodes.
Gratuity, £1,200 to Captain White.
" £1,600 to Captain Raleigh Grey.
" £1,750 to Major White.
" £1,133 to Major Willoughby.

If these officers had been retired under Article 99 as being guilty of misconduct, they might have received under Article 592 (*b*) such a rate of gratuity or retired pay, being less than the full rate for which they would have been qualified had they retired voluntarily,

as the Secretary of State, on the recommendation of the Commander in Chief, might have decided.

From this it appears that, however important the principle involved in this question may be, the charge upon the Exchequer which would have been avoided if the Secretary of State had used his full powers, under Article 99, instead of holding that the case of these officers came under Article 101, might not have been a large one.

5. The 41st section of the Army Act, 1881, provides that " Every " person who, whilst he is subject to military law, shall commit any " of the offences in this section mentioned, shall be deemed to be " guilty of an offence against military law." Among the offences so enumerated is this—" (5) If he is convicted of any offence, which when " committed in England is punishable by the law of England, . . . " whether the offence is committed in England or elsewhere." Having regard to this section, and to the terms of Article 101 of the Royal Warrant, the Comptroller and Auditor General conveyed to the Secretary of State his opinion that the terms of that Article, read with Article 592 (c), could not properly be held to be applicable to the cases of these officers.

6. In reply, he was informed that the reasons which caused the officers in question to be retired from the Service were, in the opinion of the Secretary of State, such as brought them properly under the operation of Article 101 of the Royal Warrant, and that, therefore, the question of making a deduction from their retired pay or gratuities under Article 592 (c) was one which he was competent to decide. The preamble of the Royal Warrant contains these words: " Our Will and " Pleasure is that, as herein-after laid down, this Our Warrant shall be " established and obeyed as the sole authority on the matters herein " treated of; and that Our Principal Secretary of State to whom We " shall think fit to entrust the Seals of the War Department shall be " the sole administrator and interpreter of this Our Warrant and shall " be empowered to issue such detailed instructions in reference thereto " as he may from time to time deem necessary."

7. Upon reference to the Treasury of the correspondence between the Comptroller and Auditor General and the War Office, the Lords of the Treasury expressed the opinion that it must be left to the Secretary of State to decide whether an officer whose retention in the Army is no longer desirable has been guilty of misconduct or not. In the words of the Treasury representative before your Committee, it was felt " that the whole responsibility had better rest upon him. He " had arrived at a certain decision, and must defend it before Parliament " if necessary."

8. It appears to your Committee that, in making the representation above mentioned, the Comptroller and Auditor General acted in accordance with his plain duty to bring to notice any interpretation of a warrant which may seem to him not to be a natural, plain, and reasonable interpretation, and which involves the expenditure of public money. It is of course obvious that many cases may arise in which an offence punishable by law need not necessarily be held to be misconduct within the meaning of Articles 99 and 592 of the Warrant, as, for instance, a technical assault, followed by a conviction; but it appears to your Committee that in the present instance, in order to meet the circumstances of an admittedly exceptional case, the language of the Royal Warrant has been strained. It was, therefore, in the words of the Public Accounts Committee in their Second Report for the year 1883 (para. 72), " incumbent upon the Comptroller and Auditor

" General to bring the matter to notice, as one which did not seem to " be covered by the terms of the Royal Warrant."

Your Committee deem it necessary, lest this instance should be drawn into a dangerous precedent, further to recall and to emphasize the words of their predecessors in the year 1884 (Second Report, para. 141), that " so far as practicable, the intention of a Royal " Warrant, according to the simple and ordinary meaning of its " language, should be acted upon, and that all deviations from this " plain rule will lead to inconvenience. Also, that whenever a dis- " cretionary interpretation becomes necessary, that interpretation should " not be opposed to, but in harmony with, the natural meaning, " intention, and purpose of the warrant. That there is, in short, a " limit to be placed on the power of interpretation; and that when, " in special cases, or under unforeseen circumstances, it becomes " necessary to deviate in any way from the plain meaning of a warrant, " the concurrence of the Treasury should be obtained."

Further, in the year 1886, the Public Accounts Committee (*see* 2nd Report, 1886, paras. 68 and 69) had their attention drawn to cases in which the Secretary of State appeared to exercise a wide discretion in the interpretation of Royal Warrants; but they were informed " that " cases of pensions allowed by the Secretary of State, on a strained " interpretation of the Royal Warrants, will not in future occur, as " special application is now made to the Treasury for the issue of all " pensions which the letter of the warrant does not cover, and the " Treasury is empowered by another warrant to sanction the issue of " pensions of that kind."

Again, in 1889 (*see* Public Accounts Committee, 4th Report, 1889, para. 5), the question of the interpretation of Royal Warrants was brought before this Committee by the Comptroller and Auditor General, in consequence of the claim made by the Secretary of State, Mr. Stanhope, to apply his undoubted power, as " the sole administrator and " interpreter " of Royal Warrants, " in such a manner as practically to " withdraw from the Treasury its control over the expenditure conse- " quent on his interpretation of a Royal Warrant. It appears that the " present Law Officers of the Crown had been consulted on a previous " difference between the Treasury and the War Office, and had given " an opinion, dated 21 December 1887, that the Secretary of State's " interpretation of a Royal Warrant was binding on the Treasury.

" Nevertheless your Committee feel bound to call attention to the " fact that the claim, if concealed to the extent apparently desired, " would have relieved the War Office from financial control to an extent " without precedent in the position of other Departments (the Admiralty " for instance) in relation to money voted by Parliament.

" Your Committee received evidence from Mr. Stanhope, who stated " fully the view for which he has contended.

" The importance of maintaining the Secretary of State's interpre- " tation of Royal Warrants as final is recognized by your Committee, " subject always to the conditions which have been defined from time to " time by the Public Accounts Committee, and to the control that must " be exercised by the Treasury over departmental proceedings leading to " expenditure of voted money, and subject also to the statutory powers " of the Comptroller and Auditor General, to which your Committee do " not refer more fully because they have not been called in question.

" Mr. Stanhope, having pointed out that to appeal to the Treasury " upon questions of minor importance would be exceedingly incon- " venient, said that he had exercised his power with great diffidence, " and had been reluctant to exercise it where he thought there was any " doubt.

" The Treasury does not ask that it should be consulted on every " question of interpretation, certainly not on petty or trivial points, but " only where there is a doubt, involving a question of material increase " in public expenditure.

" Your Committee trust that a practical settlement of the difference " between the Treasury and the War Office may be found if the " Secretary of State, recognizing the expediency of consulting the " Treasury in all cases of financial importance, or where a material " increase of expenditure would result from the interpretation proposed " to be placed on a Royal Warrant, were not to give his formal decision " until the Treasury had been afforded an opportunity of stating its " views."

In the Army Appropriation Account of 1890–91, appeared a charge of £1,200, which arose in connexion with the compulsory retirement from the service of an officer who was allowed a gratuity to the above amount as if on voluntary retirement. The Treasury objected to the charge, and it was decided that " the gratuity of £1,200 is not per- " missible under the Pay Warrant, and, until specially sanctioned by " the Treasury, must be disallowed as a charge on Army Votes."

The Public Accounts Committee upheld the views of the Treasury, and added (2nd Report, 1892, para. 31), " The Secretary of State " cannot, in their opinion, claim any greater freedom to disobey rules " or to put an unnatural interpretation upon them, or to make altera- " tions tending to increase expenditure, than the head of any other " Department."

The result was that the War Department applied for and obtained the sanction of the Treasury to the payment of the gratuity.

9. The point of principle connected with the financial control of the Treasury, and the claim of the Secretary of State to be the sole authority in doubtful cases, which, while they involve the expenditure of voted money, may be said to depend upon the strained interpretation of a Royal Warrant, is one upon which your Committee are not prepared to depart from their clearly defined position.

Under this heading the Committee give a very useful summary of passages from the Reports of previous years, condemning the strained or unnatural interpretation of a Royal Warrant, and recommending reference to the Treasury in any case of doubt involving material financial charge.

Whilst my Lords retain the view expressed in their letter of 25 *May* 1897 (7941/97), *that it must be left to the Secretary of State to decide whether an officer whose retention in the Army is no longer desirable has been guilty of misconduct, they cannot be surprised at the opinion entertained by the Committee that a somewhat strained interpretation was placed on Art.* 101 *of the Pay Warrant, when the Secretary of State determined to call upon the officers now in question to retire under its provisions. They note, however, that the Committee abstain from recommending that the awards to any of these officers should be cancelled.*

I am to record that, by a letter of 28 *June last* (10147/98), *my Lords concurred in the reinstatement in the Army of three out of the five officers named by the Committee, on condition of their refunding the gratuities with which they had retired in* 1896, *and of the period for which they were out of the Army not carrying pay or reckoning as service for retirement, viz.:—*

Captain the Hon. R. White,
Captain Raleigh Grey,
Major the Hon. H. F. White.

Further, it has been notified to my Lords by your letter of the 14th instant that Colonel F. W. Rhodes, D.S.O., has been restored to the Active List, with half-pay of 12s. 6d. a day, from the 14th ultimo (15662/98).

NAVY APPROPRIATION ACCOUNT.

VOTE A.—NUMBERS VOTED AND BORNE.

Excess on the Number of Marines.

11. The Resolution of the House of Commons of 9 March 1896 was "That 93,750 men and boys be employed for the sea and coast-"guard services for the year ending 31 March 1897, including 16,005 "Royal Marines."

The comparative statement of numbers voted and borne during the year, which is furnished in the Appropriation Account, shows that though the year began with a considerable deficit in the numbers, yet through successful recruiting in the successive quarters there was a progressive overtaking of the establishment and a final excess. This was principally due to the continuation of recruiting for the Royal Marines, with a view to a still further increase of establishment of this corps in the following year to the extent of 1,000 men, which further increase has since been sanctioned by Parliament.

It is evident that the Committee consider that the mean excess of 86 *beyond the number of Marines* (16,005) *mentioned in the Resolution of the House of Commons of* 9 *March* 1896, *was condoned* (1) *by the yet greater mean deficit in the number of seamen and boys, and* (2) *by the augmentation of the Marines sanctioned by Parliament for the following year,* 1897–98.

VOTE 8.—SHIPBUILDING, CONTRACT WORK.

As to the Exaction of Time-penalties from Contractors.

12. Between 24 February and 18 June 1894, contracts were entered into by the Admiralty with certain contractors for the delivery of six torpedo-boat destroyers. . . . At the termination of the account year now under review, viz., 31 March 1897, none of these vessels had been delivered, though the date for delivery had expired in every instance more than two years before. . . . The amount of the several penalties for delay in delivery incurred under the terms of the contracts amounted to no less than £68,805. . . .

The Accountant General of the Navy informed your Committee that the Department very seldom exacts penalties.

The same witness had already stated in evidence that in deciding upon the acceptance of tenders in contract work of this kind the Admiralty regard time as an important element, and that if one contractor undertakes to deliver in a shorter period than another, the difference in time may, in the estimation of the Admiralty, be an equivalent for paying a much larger price.

Your Committee failed to obtain from the representative of the Admiralty a satisfactory explanation of these illustrations of administrative policy, which appear to reduce the penalty clauses of contracts to little more than an empty form of words.

In connexion with a very serious delay in the delivery of six torpedo-boat destroyers, contracted for in the spring of 1894, *only one of which had been delivered by* 30 *March* 1898, *the Committee comment rather severely on the lenience of the Board of Admiralty in the matter of the*

exaction of penalties, which appears "to reduce the penalty clauses "of contracts to little more than an empty form of words." It is possible that if fuller explanations had been afforded to the Committee their view of the particular case might have been modified. Nevertheless, my Lords cannot but agree that if penalties are waived as a matter of course there is a risk of contractors assuming that they can always disregard limits of time in their contracts with impunity.

The Right of the Comptroller and Auditor General to see Rejected Tenders.

13. An important point has arisen between the Exchequer and Audit Department and the Admiralty with regard to the right claimed by the Comptroller and Auditor General to demand, and to have access to all tenders for contracts, both unaccepted and accepted, in connexion with the examination of Navy Accounts.

In the course of the audit of the present account a requisition for certain contract papers was put forward in what was stated to be the ordinary way, but, in response, only the accepted tender was furnished, whereupon a formal request for all the tenders was addressed to the Accountant General of the Navy, who replied that for "administrative reasons", the request could not be complied with. The matter was subsequently brought before the Lords Commissioners of the Admiralty, who stated: "that, as in their opinion unaccepted tenders are not "necessary for audit purposes, as defined by the Exchequer and Audit "Act, and their production would be extremely undesirable on grounds "of public policy, they are unable to furnish them as requested."

The issue thus raised between the Admiralty and the Comptroller and Auditor General's Department is of some importance, because it concerns, obviously, the relations between the Department of the Comptroller and Auditor General and all other Government Departments.

The position taken up by the Admiralty is a new departure, as the Comptroller and Auditor General states (Q. 598) that hitherto he has been allowed, without question, to see and to have access to unaccepted tenders; moreover, in the War Department, rejected tenders are just as open to his inspection as accepted tenders, although that Department declines to answer questions as to why one tender has been accepted and another not, and your Committee are informed that such questions have not, as a matter of fact, been asked since 1887–88.

The access sought by the Comptroller and Auditor General is not desired in any way with the object to interfere with, or even to criticize, the action of the Admiralty or any Government Department in the acceptance or rejection of any particular tender, but merely so that, when, as a matter of fact, a tender has been accepted, considerably in excess of others submitted, the Comptroller and Auditor General should be in a position to bring the matter before the Public Accounts Committee, who would then decide whether the circumstances rendered it desirable to obtain some explanation from the spending Department of the circumstances which resulted in the acceptance of a tender far in excess of some which had been submitted.

The view of the Treasury has been frequently expressed, and was again repeated in a letter to the Secretary of the Admiralty of 29 March last, where, writing on this subject, Sir F. Mowatt says, "the opinion of the Treasury upon questions of this kind has been "frequently expressed, viz., that where the information is outside the "purview of section 28 above referred to, although the Comptroller "and Auditor General may rightly ask for it, yet the Accounting

" Department may legitimately withhold it, or the papers containing it, " but must be prepared to defend its refusal, if necessary, before the " Public Accounts Committee."

Your Committee agree with the Treasury and Admiralty that rejected tenders are not documents to which the Comptroller and Auditor General can demand free access as a matter of statutory right, because they are not absolutely necessary for the due performance of any of the duties imposed upon him by Parliament. Nevertheless, your Committee regret that the Admiralty should withhold documents from the Comptroller and Auditor General which other Government Departments, and, till recently, the Admiralty itself, have not hesitated to leave open to his inspection; and they make the following recommendation, as calculated to meet the wishes of the Comptroller and Auditor General on the one hand, and to obviate the risk of undue publicity on the other, viz.: That, upon special application from the Comptroller and Auditor General in any particular case, the Admiralty should either—

(*a*) Furnish a statement of the *amounts* of the several unaccepted tenders (not necessarily giving names); or

(*b*) Transmit the unaccepted tenders to the Comptroller and Auditor General *personally*, under seal, for his own inspection and return.

My Lords remark that the Committee take the same view as themselves upon this question. They do not hold that the Comptroller and Auditor General can insist on seeing rejected tenders as a matter of statutory right, and they admit that precautions against their publication ought to be taken if publication be " extremely undesirable on grounds of public policy." But they deprecate the complete withdrawing from the Comptroller and Auditor General of documents which have been open to his inspection for so many years without harm to the public arising therefrom, and which other Departments allow him to see.

My Lords join with the Committee in hoping that the Board of Admiralty may find it practicable to adopt one or other of the two methods of compromise recommended in the Report, under which either the amounts of the rejected tenders would be communicated to the Audit Office, or the tenders themselves would be sent to the Comptroller and Auditor General personally, for his own inspection and return.

Store Accounts of the Navy.

Independent Stocktaking.

17. The Public Accounts Committee in their Report for 1897 expressed the hope that arrangements might shortly be made for the adoption of some form of independent test stocktaking in regard to Naval, Victualling, and Naval Ordnance Stores. Your Committee are informed that arrangements have accordingly been made for associating a representative of the Accountant General of the Navy with a representative of the Store Department for the purpose of surprise stocktaking, the former officer having a voice in the selection of the stores to be surveyed.*

Dockyard Expense Accounts.

Statutory Programme of Shipbuilding.

20. The Comptroller and Auditor General draws attention to the fact that, under the present practice of the Admiralty, Supplementary Estimates for further expenditure, under the Shipbuilding Votes, are not

* See futher P.A.C. 2, 1913, 36, at p. 550.

accompanied by a Supplementary Programme, explanatory of the purposes for which the further disbursements are designed, and that appropriations out of such further grants are made upon Admiralty representations to the Treasury, and in this way departmental authorization is obtained to any allocation of Supplementary Grants to Programme purposes. In this manner Treasury sanction may be obtained to an *ex post facto* appropriation to meet ascertained excesses under the Programme, a course which would operate against a definite comparison of estimate and expenditure in dockyard results.

The Comptroller and Auditor General, in May 1897, suggested to the Admiralty that in cases where application was made to Parliament for supplementary provision under the Shipbuilding Vote, the proposed allocation of extra grants should be shown, as in the case of the ordinary Estimates. The Admiralty stated in reply that, although there would be little difficulty in carrying out the suggested allocation when Supplementary Estimates are prepared to cover excess expenditure already incurred, it would be difficult to make a precise subdivision of a Supplementary Estimate rendered necessary by prospective requirements.

The Treasury appear to have suggested to the Comptroller and Auditor General that the modified Programme, so far as shipbuilding is concerned, for which any Supplementary Estimate is intended to provide, should be approved by a Treasury Minute, and that that Minute should be laid before the House at as early a date after the Supplementary Estimate is taken as may be found practicable. The representative of the Admiralty explained to your Committee that, in his view, it would be impossible to present this explanation to Parliament at the time when the Supplementary Vote is asked for, because of the period in the financial year (generally in February) when the Supplementary Estimate is prepared under great pressure of work connected with the ordinary Estimates for the ensuing year, and when it must be a matter of considerable doubt what will be the description or the amount of the stores which contractors will deliver before the end of the following month.

21. The obvious purpose of the Programme is to give to Parliament a clear idea of what amount of shipbuilding is contemplated during the year, and the reason and motive which dictate the presentation of an Original Programme together with the Annual Estimates would, in principle, require that a Supplementary Estimate introduced with a view to any substantial alteration of that Programme should be accompanied by a statement showing the nature and extent of that alteration. It would be useless, from the point of view of Parliamentary control, to present this information after the supplementary provision had been scheduled in an Appropriation Act.

The Treasury have frequently urged upon the Admiralty the importance of communicating to Parliament, at the first opportunity, any material alteration of Programme, whether involving the necessity for a Supplementary Vote or not, and they have occasionally obtained a Revised Programme from the Admiralty and communicated it to Parliament.

22. Your Committee are of opinion that whenever a Supplementary Estimate is presented for one or more of the sections of Vote 8, the Admiralty should explain its relation to the Programme as regards each section, if possible, or state that it has no definite relation to the Programme; and further that, with or without a Supplementary Estimate, Parliament should be informed at the earliest opportunity of any really important extension or alteration of the Programme.

The opinion expressed by the Committee as to the explanations that should accompany Supplementary Estimates affecting the Programme, and the importance of informing Parliament as soon as practicable of any material extension or alteration of the Programme, whether a supplementary grant be required or not, coincides entirely with that of my Lords.

Depletion of Stock for Programme Purposes.

Although this subject is not mentioned by the Committee, it is so closely connected with the control of Parliament and the Treasury over the Programme that my Lords think the following remarks upon it will not be out of place here.

No manipulation of the Programme can relieve the Admiralty from the restrictions of the Appropriation Act, so far as their cash transactions are concerned. That Act, however, does not touch the issues of stores from stock, the net value of which forms a large part of the Programme. Many important stores, such as armour plates and the more bulky shipbuilding materials, are bought directly for particular ships, by whose sides they are placed as soon as they reach the yard, without ever entering stock; the cost of these stores forms a direct cash charge against the Programme, and against Section II. of Vote 8. But many other stores are bought for stock, and the cost of these does not find its way into the Expense Accounts, as part of the Programme of Shipbuilding, until the stores are issued from stock for use upon the ships, which to a considerable extent does not take place until after the year in which they have been purchased. Within the limits of the Subheads of the Programme the expenditure of stores from stock rests in the discretion of the Admiralty alone, and within the total of the Programme rests in their discretion, subject to Treasury concurrence. But any undue depletion of stocks would be apparent in the Store records, and could not fail to be observed by the Comptroller and Auditor General, and noticed in his Report to Parliament.

As already stated, a depletion of stock not causing an excess on a Subhead of the Programme rests within the discretion of the Admiralty alone. But my Lords think it should be a rule that no considerable depletion not estimated for, or considerable diminution of an increase of stock that has been estimated for, should be deliberately incurred without warning to the Treasury.

The last page of each year's Programme consists of an Estimate of the Receipts and Issues of Naval Stores and Dockyard Machinery, Gun Mountings, &c., in the year, and of the value of stock at the beginning and end of the year. Reference to page 251 of the Navy Estimates, 1898-99, for instance, will show that a total depletion of stock, to the amount of £100,000, is estimated in the course of that year; and a comparison of the footnote on page 81 with page 170 will show that half of that depletion is in connexion with new construction. If considerable savings occur under the heads of "Personnel" and "Contract," or upon stores that are not taken into stock during the year, it would be possible to increase the depletion of stock beyond the estimate without any excess on a Subhead of the Programme, by issues of stores from stock, which might, perhaps, not be brought into use before the close of the year.

A serious depletion of stock at the close of the year, which cannot properly be made permanent, and for which no adequate allowance has been made in the Cash Estimates of either that or the next year, might prove a source of inconvenience, by necessitating a Supplementary Estimate for the latter year. The same can be said, for corresponding reasons, of an omission at the last moment to make an increase of stock

provided for in the Estimates of a year, because that increase may have been counted upon in framing the Estimates of the next year.

It should, therefore, be the rule that, in notifying a redistribution or extension of the Programme to the Treasury, the Admiralty should, as far as they may find practicable at the time, furnish information as to any additional depletion or postponement of intended increase of stock involved by the change, and the financial effect upon Vote 8, Section II., for the current or succeeding year, as the case may be.

GREENWICH HOSPITAL AND TRAVERS' FOUNDATION.

23. The Comptroller and Auditor General draws attention to a sum of £100, paid for the revaluation of a property on which the hospital had advanced money, and which in his opinion ought to have been charged to income instead of capital. Your Committee agree that this expense, being the cost of advice required in their discretion by the hospital authorities, for the due fulfilment of their duty of protecting the capital of the hospital, would be more properly regarded as a charge of administration payable from income, than as one of those incidental expenses which are inseparable from the direct act of investment, and as such are usually charged to capital, if not recovered from other parties. The case may admit of doubt, but in doubtful cases it is wiser to decide in favour of charging income.

Your Committee observe that the representative of the Admiralty seemed to take the view that it was a matter of indifference whether the expense was charged to income or to capital, because the effect of its charge to income would simply be to diminish the amount of surplus transferred to capital at the close of the year. Under section 39 of the Act 28 & 29 Vict. c. 89, the Admiralty can transfer sums to and fro between income and capital, so that capital can be made to benefit by surplus income, but *per contra* must make good a deficit of income. This power, however, should not be allowed to obscure the radical difference between a charge to income and a charge to capital.

The economic advantage of a charge to income is that it brings the expense within the budget of the year, and treats it as one which ought not to be incurred unless current revenue can be made to bear it, and for which, if need be, means must be found by postponing other charges on income.

The Board of Admiralty will observe that the Committee are of opinion that the cost of revaluing a property on which the hospital had advanced money should have been charged to income instead of capital. My Lords concur in this opinion, and would point out that the Committee share the view of the importance of the distinction between a charge to income and a charge to capital in the hospital accounts which was expressed in the letter from this Department of 24 May last (8119/98).

REVENUE DEPARTMENTS, APPROPRIATION ACCOUNTS, H.C. 133/1899.

TREASURY MINUTE (4825/99), dated 27 March 1899, adding to Schedule B. of the Exchequer and Audit Departments Act, 1866 (29 & 30 Vict. c. 39), the Appropriation Accounts of the Grants for the three Revenue Departments, viz., the Post Office (including the Telegraph and Packet services), the Board of Customs, and the Board of Inland Revenue, and directing a detailed Test Examination of such Accounts under the same Act.

My Lords read the twenty-ninth section of the Exchequer and Audit Departments Act, 1866 (29 & 30 Vict. c. 39), which enacts that, in conducting the examination of the vouchers relating to the appropriation of the grants for the several services enumerated in Schedule B. of the said Act, the Comptroller and Auditor General, after satisfying himself that the accounts bear evidence that the vouchers have been completely checked, examined, and certified as correct in every respect and that they have been allowed and passed by the proper departmental officers, may admit the same as satisfactory evidence of payment in support of the charges to which they may relate; provided always, that, if the Treasury should desire any such vouchers to be examined by the Comptroller and Auditor General in greater detail, the Comptroller and Auditor General shall cause such vouchers to be subjected to such a detailed examination as the Treasury may think fit to prescribe.

My Lords note that the services enumerated in the said schedule relate to the Army, Navy, and such other Services as the Treasury by their Minute, to be laid before Parliament, may direct; but no such Minute shall take effect until it shall have lain before the House of Commons thirty days, unless it shall have been previously approved by a resolution of the House of Commons.

My Lords also read a letter addressed to them by the Comptroller and Auditor General, dated 21 November 1898, in which he intimates his belief that, at the time of the passing of the Act above mentioned, it was contemplated (as would seem to be implied by the provisions of the twenty-ninth and thirtieth sections) that a considerable difference might properly be made in the extent of the details of examination to be given by him, on behalf of Parliament, to the accounts of departments which have, and those which have not, separate and distinct account branches of their own.

The Comptroller and Auditor General adverts to the large growth in recent years in the number and bulk of the accounts transmitted to him for audit; and, with a view to meeting this increase of work by a saving of labour upon accounts which, in his opinion, do not require to be subjected to examination in full detail, and thus avoiding the necessity for an addition to the present numbers of the clerical staff, he suggests that the accounts of the three Revenue Departments should be added to those specified in the above mentioned schedule to the Act.

My Lords note that these accounts are examined, on behalf of the respective departments, by separate and distinct, and practically independent, account branches, and they concur in the view taken by the Comptroller and Auditor General of the intention of the twenty-ninth and thirtieth sections of the Act 29 & 30 Vict. c. 39.

They are accordingly prepared to give effect to the proposal of the Comptroller and Auditor General, provided there be applied to the accounts of the three departments in question an effective test examination similar to that applied to the accounts of Army and Navy Services.

They further learn that the adoption of this course is approved by the Committee of Public Accounts appointed in the present Session,* whose attention has been drawn to the subject by the General Report of the Comptroller and Auditor General upon the Appropriation Accounts of the Grants for Civil Services and Revenue Departments, 1897–98.†

My Lords now therefore are pleased to direct that the Appropriation Accounts of the Grants for the three Revenue Departments (including the Telegraph and Packet Services) be forthwith added to the Schedule B. and be regarded as if they were accounts specifically enumerated therein.

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* See the Committee's Resolution of 8 March 1899 on p. vi of Second Report, H.C. 169/1899.

† See H.C. 44/1899, pp. v & vi.

In pursuance of the powers vested in them by the twenty-ninth section of the Act above referred to, my Lords are also pleased to direct that there be a detailed examination of such accounts, similar to that applied to the Army and Navy Appropriation Accounts, as described in Treasury Minute of 20 March 1876.*

THIRD REPORT, 1899. H.C. 189.

Treasury Minute, 21 November 1899.

STORE ACCOUNTS OF THE ARMY.

Independent Stocktaking at Out-Stations.

10. Your Committee entirely agree with the remarks of the Comptroller and Auditor General as to the importance of an occasional independent stocktaking at out-stations by officers of the Accountant General's Department.

The actual remain of stores verified by these officers, as compared with the ledger balances, has on several occasions disclosed considerable discrepancies. Thus, whereas stocktakings conducted under Army Service Corps Regulations in March 1896 and March 1897 at Devonport Hospital did not reveal any important discrepancies, a test made on behalf of the Accountant General in September 1897 led to the discovery that a large number of towels, sheets, &c., amounting in value to £80, were deficient, and that they had in all probability been deficient for a considerable period. Similarly a stocktaking, on behalf of the Accountant General, of the stores in charge of the Royal Engineers at Chelsea Barracks in April 1898 led to the discovery that there had been accumulations of certain kinds of stores for many years, which had not been brought on ledger charge, although the annual stocktaking by the local officers in April 1897 contained a certificate that there were " no discrepancies " between the ledger balances and the actual remains of stores.

11. The Accountant General to the Army informed your Committee that he considered the check now instituted from his own Department to be of the greatest value; but he expressed the opinion that although there had been very distinct carelessness on the part of the local officers concerned, there was no gross culpability in the matter, that there was scarcely any delinquency, and certainly no fraud.

Your Committee find themselves unable to adopt this lenient view of the certificates above mentioned; and note with satisfaction that the system of independent verification of the remain of stores at out-stations has been considerably extended.

My Lords doubt not that due note will be taken of the Committee's expression of opinion with regard to the misleading certificates of the remains of stores as given by local officers at certain out-stations. My Lords anticipate that the independent verification of stores by your officers will prevent such irregularities in the future.

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* See page 55.

FOURTH REPORT, 1899. H.C. 253.

Treasury Minutes, 21 November and 30 October 1899.

NAVY APPROPRIATION ACCOUNT.

VOTE 8, III.

Waiver of Time-penalties

In the case of four Torpedo-boat Destroyers . . . (the contracts for which provided for penalties for late delivery at the rate of £15 a day), delays in delivery had occurred varying, up to 31 March 1898, from one year and three months to one year and ten months. . . . The Admiralty propose to waive the penalties. . .

Your Committee deem it prudent to withhold for the present any definitive judgment on the matter; but the question is so important (involving, as it does, not only considerable sums of public money, but also the relations of contractors to a spending Department) that it ought not to be lost sight of in the Reports upon future Appropriation Accounts of the Navy; and in the opinion of your Committee it is desirable that the Comptroller and Auditor General should be in a position to report fully upon all penalties incurred by, and all penalties waived in favour of, the several contractors.

T.M. 21 November 1899.—My Lords would be glad to know if they are right in understanding that the facilities to the Comptroller and Auditor General, which the Committee deem desirable, can continue to be afforded by the Board of Admiralty.

STORE ACCOUNTS OF THE NAVY.

Excess Purchase of Stores.

9. Another £150,000 was expended in the purchase of stores. . . because there happened to be a favourable state of the market, and at the same time a large amount unexpended under another Vote, and available for the purpose to which it was desired to apply it. It was admittedly in anticipation of the requirements of the following year—the Vote for which was thus made less than it would have otherwise been by the same sum of £150,000. . . Your Committee are of opinion that as regards the £150,000 the Admiralty authorities proceeded to an appropriation of an available balance which, however advisable from the point of view of economy, it was not within their right to make without having previously obtained from the Treasury a sanction grounded upon a full statement of the facts of the case.

Due note will no doubt be taken by the Board of Admiralty of the expression of the Committee's opinion.

Arrears of Unpassed Ships' Store Accounts.

11. . . . In the opinion of your Committee promptness in accounting is second in importance only to accuracy. . . .

Superannuation Allowances on Compulsory Retirement.

15. It appears to your Committee to be a point worthy of consideration whether, to meet a case . . . where it is not possible to retain an officer in the Service by reason of his failure properly to discharge his duty, it would not be well to have some statutory provision

to enable the Treasury to deal with it according to the real state of facts, rather than to strain the words of the existing statutes. The 2nd section of the Act of 1887 does not appear to have been intended to cover a case like the present, where not mere inability, but admittedly gross neglect of duty, closely resembling misconduct, was the real ground for compulsory retirement. . . .

The 2nd section of the Act of 1887 (50 & 51 *Vict. c.* 67) *gives the Treasury power to grant a retired allowance "where a Civil Servant is "removed from his office on the ground of his inability to discharge "efficiently the duties of his office." By the Admiralty letter of* 28 *April* 1898 (*C.* 4314) *the Treasury was informed that the late superintendent of the Deptford Victualling Yard "was retired on the "ground of his inability to discharge efficiently the duties of his office "within the meaning of section* 2 *of the Superannuation Act,* 1887." *It was on this assurance, which relates (as required by the statute) to the grounds of his removal by the Admiralty from their employment, that my Lords proceeded to award to the superintendent a reduced pension at the rate of about* 25 *per cent. less than his actual service, in itself, would have justified; and (as was stated in the answer to Question* 1005) *a copy of the Treasury Minute of* 20 *May* 1898 *was duly laid before Parliament, as required by the Act.*

It is a matter of regret to this Board that the Committee should incline to the view that in this case there has been a straining of the words of the Act of 1887. *It is certainly not the desire of their Lordships, in the exercise of the discretion vested in them by the Act, to interpret its provisions with undue leniency; nor do they consider that wilful neglect of duty without extenuating circumstances could, of itself, constitute "inability" within the intention of the section. Special care will be taken by the Treasury in dealing with such cases as they arise, and my Lords will bear in mind the expression of the Committee's opinion.*

Civil Services Appropriation Accounts.

Class II., Vote 39.—Valuation and Boundary Survey, Ireland.

Date of Charge.

17. The Comptroller and Auditor General reports that under the Subhead of Legal Expenses a sum of £2 2*s.* is included, the amount of an order on the Paymaster General which was not presented for payment within three months* from the close of the financial year. The order should have been cancelled, and the Vote relieved of the charge, and the Auditor General is unable to admit it as properly chargeable in the present Account. The surplus to be surrendered will therefore be increased to the extent of £2 2*s.*, as compared with the statement in the Account.

T.M. 30 *October* 1899—*Let a further sum of* £2 2*s. be surrendered by means of a write-off from the Grant for Valuation and Boundary Survey, Ireland for* 1898–99.

Class III., Vote 8.—Prisons (England and the Colonies).

Allocation of Cost of Draughtsmen, &c. to Works under Subhead M.

18. The Comptroller and Auditor General calls attention to the somewhat irregular way in which a sum of £2,847 13*s.* 8*d.*, comprising

* Three months is the prescribed period in the case of payments chargeable to Civil Service Votes; six months in the case of those chargeable to Army or Navy Votes.

the pay and travelling expenses of draughtsmen, clerks of works, &c., has been distributed amongst the various items of the Subhead bearing no apparent proportion to the works in hand. The statement is thus deprived of much of its value for its intended purpose, and the practice prevents Parliament from accurately knowing the exact cost of each separate work. The Department admitted the irregularity, and your Committee are informed that the Treasury are about to confer with the Department with a view to the adoption of the same principle of apportionment in this as in other Departments.

My Lords have had before them Mr. Murdoch's letter of 27 June last, with its enclosed copy of a letter from the Prison Commissioners, suggesting the assimilation of their practice to that adopted by the Office of Works. The method in force in the latter Department is to provide under the salary Subhead of the Office Vote for the remuneration of the temporary staff employed on duties at the head office, while the salaries of the clerks of works employed on local duties are charged as part of the cost of the works on which they are engaged. My Lords approve of the adoption of the same rule by the Prison Commissioners.

Farm Accounts.

Farming operations are now carried on to a considerable extent at Dartmoor and other convict establishments, and the Comptroller and Auditor General suggests that an Abstract of the Farm Accounts, similar to that of the Manufacturing Accounts, should be submitted for publication with the Appropriation Account. The Department recognize the desirability of such an Account, and have experimentally introduced it at Dartmoor.

CLASS IV., VOTE 3.—BRITISH MUSEUM.

Grants in Aid for Purchases.

To the Director and Principal Librarian, British Museum.

I am directed by the Lords Commissioners of Her Majesty's Treasury to call your attention to the observations of the Comptroller and Auditor General, in the third paragraph of his Report upon the Appropriation Account of the Vote for the British Museum, 1897–98, concerning the expenditure for Purchases and Acquisitions shown in the Account in excess of the amounts of the voted Grants in Aid (Subheads C. and N.) and also to the evidence taken thereon by the Public Accounts Committee, 1899.

The circumstances which led to the entries in the Account to which exception was taken by the Comptroller and Auditor General were sufficiently explained in evidence before the Committee (Qs. 1501–5). Their Lordships desire me now to point out the proper method of dealing with Grant in Aid Subheads in the Appropriation Account, in order that such irregular entries may in future be avoided.

When money is voted as a Grant in Aid, Parliament dispenses with the condition, which applies to all other voted moneys, that any amount not finally expended within the financial year shall be surrendered. It is sufficient that the Accounting Officer for the Vote should pay over the amount of the Grant in Aid within the financial year to the fund which it is intended to aid, or to the persons at whose disposal it is to be placed. Evidence of such payment gives him his full discharge, and the Appropriation Account is not concerned with the further disposal of the money.

It follows that in the Appropriation Account the figures of "Grant" and "Expenditure" in respect of a Grant in Aid will in ordinary circumstances be the same, namely, the full amount of the Grant in Aid. It is possible that in the course of the financial year some unlooked-for contingency might arise to compel a departure from the purpose for which Parliament had sanctioned a Grant in Aid. But in the absence of any such disturbing cause, there is full liberty to pay over the whole amount within the financial year, and consequently the Expenditure need not be less than the Grant. On the other hand, the Expenditure must not be more than the Grant, because Parliament alone can give an exemption from the ordinary obligation of surrender, and the amount to which that exemption applies cannot therefore be greater than the amount for which Parliament has sanctioned it. The Treasury has power to authorize the application of a saving on one of the ordinary Subheads of a Vote to meet excess expenditure on another, when both Subheads are subject to the same rules of accounting; but the Treasury has no power to authorize the application of such savings either to increase an existing Grant in Aid Subhead or to create a new Grant in Aid Subhead, because by so doing it would be exempting from the condition of surrender money which had been voted by Parliament subject to that condition.

It is the object of the Treasury in proposing, and of Parliament in voting, the Purchase Grants as Grants in Aid to make them suffice for all requirements, exceptional as well as normal. Their efficiency for this purpose is greatly increased by the power which the Museum authorities thus obtain of carrying forward the savings in a year of small expenditure to meet heavier demands in subsequent years. Still the Treasury are not precluded by this arrangement from entertaining, exceptionally, an application from the Trustees for permission to devote savings on the other Subheads of the Vote to a particular purchase within the year, when the circumstances are urgent and the purchase fund is exhausted. But the special Subhead to be opened in the Appropriation Account for expenditure so authorized should be kept distinct from the Grant in Aid Subhead. It might be styled "Special Purchases and Acquisitions."

In addition to the special expenditure sanctioned in 1897–98 *for the purchase of the Egyptian Antiquities, there were also, as shown in the Appropriation Account, incidental excesses of slight amount on both the Grant in Aid Subheads, namely, an excess of £6 17s. 9d. on Subhead C., and of £1 10s. 4d. on Subhead N. The foregoing observations will have made it clear that no such excesses can properly appear upon the account of expenditure under a Grant in Aid Subhead. Except where special Treasury authority has been obtained for a particular purchase, as referred to above, the charge on the Appropriation Account in connexion with purchases must be strictly limited to the amount of the Grant in Aid. . . .*

SECOND REPORT, 1900. H.C. 298.

Treasury Minutes, 5 December and 28 November 1900.

Store Accounts of the Navy.

Excessive Issues.

4. The test examination conducted by the officers of the Comptroller and Auditor General of the local accounts at Chatham Dockyard brought

to notice two cases where issues of stores were made to ships in course of construction largely and unnecessarily in excess of requirements.

(*a*) In the first case, 12,720 copper sheets for sheathing, of a value of £3,021, and 33,600 lbs. of nails for sheathing, of a value of £980, were transferred to Deposit Store for use, in equal shares, in the building of Her Majesty's ships "Argonaut," "Ariadne," and "Amphitrite"; but the total quantities actually used were only 7,590 sheets, and 20,720 lbs. of nails.

As the number of sheets and nails required for a known area can be approximately estimated, the Comptroller and Auditor General invited explanation from the Admiralty of the apparent excess issues in bulk. He was informed that there had been a misapprehension of the area to be covered. The unused surplus has been re-transferred from Deposit Store to stock, and the local officers have been notified that the transactions involved irregularities which should be avoided in future.

(*b*) In the second case, steel angle bars of a value of £1,327 were issued in Chatham Dockyard as for the building of H.M.S. "Venerable," which were known at the time not to be required for that ship (the hull of which was approaching completion), but for a new ship to be subsequently built, the expenditure for the materials of which was not provided for until the year 1899–1900.

In the Expense Accounts of the Dockyard the sum of £1,327 was taken in abatement of the charge against the "Venerable" and credited to the Stock Valuation Account as having been "demanded in error."

It appears that the Chief Constructor, when the hull of the "Venerable" was approaching completion, demanded a large quantity of angle bars as if for use on that ship, and had them temporarily so charged pending the receipt of particulars of the design of the new ship to be built after the launch of the former, although no provision was made for expenditure on the new ship.

The object which the Chief Constructor had in view was apparently to avoid all possible delay in proceeding with the new ship; but he had not any authority, under the circumstances, to requisition materials for the purpose; and although in the opinion of your Committee there is not much room for blame, there was, in the absence of special Admiralty authority, a clear irregularity in the proceeding.

From an audit point of view the case calls for special notice, owing to the fact that the circumstances of the case would probably have remained undetected but for the spontaneous correction of the accounts by the Chief Constructor himself.

Plates, angles, steel generally, and what is called structure material, as demanded for ships, all pass direct to the Chief Constructor and are not in the hands of the store officers, and as the allocation of materials must follow the authoritative demands of the Dockyard officers concerned with construction, this case illustrates forcibly the importance of the determination . . . arrived at five years ago, that stores should be demanded specifically for each ship.

This has been fully recognized by the Admiralty authorities, who, after commending the Admiral Superintendent for the action taken by him to secure the avoidance of such irregularities in future, direct that in any case where is it considered desirable to anticipate requirements by demanding materials for a new ship not provided for in the Programme to the Navy Estimates, the sanction of the Admiralty should be obtained before such demands are made.

T.M. 5 *December* 1900.—*The Admiralty and the Treasury are in accord with the Committee in regarding it as essential that demands for stores required for ships in course of construction should as far as practicable relate to specific ships. In the case of the surplus copper sheets and nails for the "Argonaut," "Ariadne," and "Amphitrite," although considerable irregularity occurred* (i) *in overdrawing these valuable stores, and* (ii) *in transferring them in account from ship to ship, there was no ultimate loss to the public inasmuch as the surplus issues had been throughout under safe custody in a "Deposit Store," and were thence returned to the store officer's charge. So far as the case goes, it tends to support the experimental institution of "Deposit Stores" for the safeguarding, pending actual use, of valuable stores issued from the Store Department to the constructors. I am to inquire whether it is considered advisable to extend experimentally the principle of store custody, so far as valuable articles are concerned, to stores after their issue in bulk for ships building or under repair.*

Uganda Railway Act, 1896.

18. . . . The Treasury were authorized to issue out of the Consolidated Fund sums not exceeding £3,000,000 as required by the Secretary of State for the construction of the railway. By the second section of the Act the Treasury were further authorized for the purposes of the Act to borrow money by means of terminable annuities for a period not exceeding 30 years, all sums so borrowed being paid into the Exchequer; the said annuities to be paid out of moneys annually provided by Parliament for foreign and colonial services.

If these moneys are insufficient the annuities are to be charged on and paid out of the Consolidated Fund, or the growing produce thereof, but not to be payable as part of the permanent charge for the National Debt.

It appears to your Committee that a question here arises as to the technical compliance with the Act of Parliament regulating advances by the National Debt Commissioners to the Treasury in connexion with the Uganda Railway, and the Treasury have undertaken to obtain the opinion of the Law Officers of the Crown on the subject.

T.M. 28 *November* 1900.—*On the question whether the provisions of this Act are complied with in the arrangements which have been made for the provision by the National Debt Commissioners of funds required for the purposes of the Act, my Lords caused a case to be submitted for the opinion of the Law Officers of the Crown. The Law Officers give it as their opinion that the procedure prescribed by the Treasury Minute of* 15 *August* 1896 *is unobjectionable, and is not in violation of the Act* 59 *&* 60 *Vict. c.* 38.

The arrangements embodied in the Treasury Minute referred to were as follows :—

"1. *The National Debt Commissioners will be asked to make the advances out of funds available in their hands for investment on the security of Terminable Annuities expiring in* 30 *years from the date of the passing of the Act.* (14 *August* 1896.)

"2. *The rate of interest with which the advances are repaid will be fixed at the time of each advance by the Treasury, with the concurrence of the National Debt Commissioners.*

"3. *A single annuity will be calculated at the end of each calendar year to repay the sums borrowed during that year.*"

"4. *Provision for such annuity will be made in the Vote for British Protectorates . . . for the ensuing financial year.*"

APPENDIX No. 6 to 2ND REPORT, 1900.

MEMORANDUM explaining the relations of the Crown Agents for the Colonies to the Imperial Exchequer, and to the Crown Colonies, Protectorates, &c., receiving Grants in Aid.

1. The Crown Agents do not receive any money direct from the Exchequer.

2. Issues from the Exchequer on account of any Colony or Protectorate for which a Grant in Aid is taken are made, on the Order of the Treasury, to the Paymaster General, who makes such payments to the Crown Agents as may be authorized from time to time by the Accounting Officers of the Votes which provide the Grants in Aid.

* * * * * * *

4. These Grants in Aid are paid by the Paymaster General to the Crown Agents as required, and the Accounts of the receipts and payments of the Crown Agents are rendered by them to the Colonies and Protectorates, and are embodied in the Accounts of the respective Treasurers.

5. All these Accounts, with the exception of those of the West Indian Islands, are examined on behalf of the Colonial Office and Foreign Office in the Colonial Audit Branch of the Exchequer and Audit Department. [*Now the Colonial Audit Department at the Colonial Office, see Third Report*, 1910, *para.* 20, *at p.* 529.]

6. The Accounts of the Grants in Aid of the West Indian Islands are examined in the Exchequer and Audit Department on behalf of Parliament to the extent required by the conditions laid down in the Estimates.

7. The Crown Agents are kept in funds by the issues which are made to them by the Paymaster General out of the Grants in Aid, and by remittances from the Colonies and Protectorates for which they act.

8. Separate Accounts are kept by the Crown Agents for each Colony and Protectorate receiving a Grant in Aid, in which are recorded all their receipts and payments, and these Accounts are rendered monthly to each Colony and Protectorate with supporting vouchers.

9. With the exception of the Uganda Railway, for which a separate Account is kept by the Crown Agents at the Bank of England, all cash held by them on account of the Colonies and Protectorates receiving Grants in Aid is kept in a General Account either at the Bank of England (Drawing Account), or on deposit at the London and Westminster Bank.

10. The Crown Agents are remunerated for their services:—

(1) By a commission of 1 per cent. on all expenditure incurred by them in the purchase and shipment of stores.

(2) By fixed annual contributions from the larger Colonies and Protectorates.

(3) By certain charges at authorized rates in respect of the Issue and Repayment of Loans, &c.

(4) By an authorized charge in respect of Overdrawn Accounts.

Exchequer and Audit Department,
10 July 1900.

SECOND REPORT, 1901, H.C. 175.

Treasury Minute, 23 December 1901.

NAVY APPROPRIATION ACCOUNT.

VOTE 8, III.—CONTRACT WORK.

Contract Penalties and Premiums.

3. The whole question of the output of shipbuilding yards and the question of contracts and the enforcement of penalties have been referred to a Committee appointed by the First Lord of the Admiralty, and consisting of Mr. Arnold Forster (President), Admiral Wilson, Sir Thomas Sutherland, and Sir Francis Evans. The Committee of Public Accounts attach great importance to this question in view of securing greater punctuality in delivery, and they also desire to suggest that the question of giving a premium for success might be considered as well as the enforcement of penalty for failure.

*As regards Shipbuilding Contracts, &c., their Lordships of the Admiralty, when dealing with the Report of the Committee, of which the Financial Secretary of the Admiralty is President, will be in a position to consider the suggestion of the Public Accounts Committee that a premium might be given for success in prompt delivery in addition to enforcing penalties for failure upon Contractors.**

Advances to Contractors.

4. Your Committee desire to take note of the fact that certain advances have been made to contractors, without interest, in cases where heavy expenses have been incurred with a view of earning one or more covenanted instalments, but the contractors have been prevented by unavoidable causes, and through no fault of their own, from claiming the payment of such instalments.

Your Committee are of opinion that such advances should only be made in special cases, fulfilling the conditions laid down in the sixth paragraph of the Fourth Report of the Committee of 1890 [*see p.* 255], and should invariably be reported to the Treasury.

5. Your Committee have also had under consideration two cases of advances to contractors of an exceptional character, one of which was made on the security of the personal bond of the managing director of a shipbuilding company, and the other without such security. In both cases interest at bank rate was charged.

It has been explained in evidence that although the contractors had not fulfilled the conditions entitling them to the payment of any specific instalments, they had done work to a value considerably exceeding the sums advanced.

In another case, in consequence of the failure of the contractors, special advances were made to the receivers and managers of the company in liquidation to enable them to complete the work the contractors had in hand at the time of their failure.

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* The Report of the Committee appointed to inquire into the Arrears of Shipbuilding was presented to Parliament in 1902 as Cd. 1055. The recommendations as to penalties are summarized in P.A.C. 2. 1903. 3, see p. 453. The Committee were strongly of opinion that it is not desirable to adopt a system of bonuses, either for delivery before contract date, or for exceeding contract speed. Nevertheless premiums have been provided for occasionally in contracts for torpedo boat destroyers. See P.A.C. 1907, Qs. 1782-3*, and P.A.C. 1911, Qs. 1838-41.

Your Committee consider that, circumstanced as the Admiralty was at the moment when these advances were made, the Admiralty was justified in the course which it pursued, but they desire to express their opinion that in the future much stricter inquiry should be made into the financial status of firms before entering into any large contracts with them.

With regard to uncovenanted advances under Admiralty contracts for Shipbuilding, &c., the Public Accounts Committee express the opinion that such advances should only be made in special cases, fulfilling the conditions laid down in the sixth paragraph of the Fourth Report of the Public Accounts Committee of 1890, *and should invariably be reported to the Treasury. My Lords believe that it has been an invariable rule of the Board of Admiralty to communicate with the Treasury in all such cases, and it has been the uniform aim of this Board in dealing with such exceptional advances to adhere to the conditions laid down by the Public Accounts Committee of* 1890. *In the particular cases now in question it was not possible, consistently with the interests of the public service, to adhere throughout to those conditions; and my Lords note that the Committee recognize in paragraph* 5 *that, circumstanced as the Admiralty was at the moment when two of these advances were made, the Admiralty was justified in the course which it pursued.*

With reference to the Admiralty answers to Qs. 332–4, *my Lords understand that, as suggested by the Committee, their Lordships of the Admiralty will institute stricter inquiries into the financial status of firms before entering in to any large contracts with them. Such inquiries, in conjunction with the revised arrangements sanctioned by the Treasury letter* (No. 577) *of* 18 *January* 1900, *will minimize, it may be hoped, the number of cases in which payments may have to be made to Contractors outside the terms of their contracts.*

VOTE 10.

Rebuilding of Nelson Monument on Portsdown Hill; Payment in excess of Contract Price.

6. This Monument was taken over by the Admiralty from the War Office, and was rebuilt by Messrs. Light and Son, whose bill amounted to £1,091. The contractors subsequently proved by a reference to their books that the work actually cost them £1,411, and that their loss amounted to £320 7*s.* 3*d.* The Admiralty applied to the Treasury for leave to pay this excess out of the savings upon Vote 10; and the Treasury acceded to the application, on the ground that the work was very exceptional in its character, and that it was impossible to make an accurate estimate of the expense before the work was commenced. Your Committee are of opinion that such deviations from the terms of a contract in favour of the contractors should only be allowed by the Treasury when the circumstances are very exceptional, and that this case must in no way be taken as a precedent.

My Lords note the expression of the Committee's opinion . . . Their Lordships of the Admiralty are aware of the reluctance of this Board to interfere, except under wholly exceptional circumstances, with the express terms of a definite bargain.

DOCKYARD EXPENSE AND MANUFACTURING ACCOUNTS.

Building Royal Yacht.

16. The Committee wish to draw attention to the expenditure on the new Royal Yacht, which up to end of the financial year had

exceeded the Estimate of £216,648 for Direct Charges by the sum of £37,222. As the excess is said to be mainly due to inexperience in building ships of this kind, the Committee are of opinion that work of this character should not in future be undertaken in His Majesty's Dockyards.

The Lords Commissioners of the Admiralty will observe that the Committee are of opinion that work of the character of the Royal Yacht should not in future be undertaken in His Majesty's Dockyards.

Estimates of Repairs and Refits.

17. Your Committee also desire to call attention to the case of the repairs and refit of the "Dreadnought." . . .

(*e*) No estimate of the total cost of the proposed refit and repairs was at any time submitted to the Admiralty or presented to Parliament; and the column provided for such estimate was left blank with the note "Details not complete."

(*g*) Your Committee are of opinion that in all cases, before determining upon the policy of the refit and repair of an old ship, a very careful estimate (all the more careful because necessarily only approximate) of the probable total cost should be made and considered by the Admiralty, and should be presented to Parliament at the earliest opportunity.

Nor can your Committee find that any adequate reason for the omission to take this course in this case appears.

With reference to Q. 689, *my Lords assume that steps will be taken in future by the Admiralty to ensure that, before it is decided to refit an old ship such as the "Dreadnought," a very careful estimate of the probable total cost will be made and considered by the Admiralty, and will be communicated to Parliament in connexion with the Programme of Shipbuilding, &c.*

GREENWICH HOSPITAL AND TRAVERS' FOUNDATION.

Depreciation of Wasting Assets.

20.—(*a*) Your Committee find that part of the yearly receipts of the Hospital arises out of royalties from collieries and limeworks; and that the gross amount of such royalties is habitually treated as income.

(*b*) It appears that the custom is not to spend the whole income of the Hospital; and that a surplus, which is in excess of the receipts from royalties, is yearly invested, and is thus said to be added to the capital.

(*c*) But this does not seem to meet the difficulty, which arises from the fact that the coal and lime are being exhausted, and the income will some day end with its source.

(*d*) It follows that, in so far as the income represents the wastage of capital, it is not in the true sense surplus income but represents existing capital, and thus its investment does not really, as under the present system it appears to do, add to the capital of the Hospital.

(*e*) Your Committee are of the opinion that the course pursued in some analogous cases by certain other Government Departments should be followed; and that a due proportion of the yearly receipts, past and future, from these wasting assets, should be set aside to meet their depreciation.

My Lords concur in the principle on which the Committee's opinion is based, and they suggest that the fixed proportion to be credited to capital should be taken in all such cases at not less than half (cf. Section 2 of 29 & 30 Vict. c. 62). In practice, this result is more than attained at present, seeing that (as was pointed out in reply to Q. 790) the surplus Hospital income annually invested is considerably greater than the whole of these royalties—the figures for 1899–1900 being £10,646 11s. and £3,719 9s. 1d., respectively.

[The recommendation has been adopted by the Admiralty from 1902–3.]

THIRD REPORT, 1901. H.C. 259.

Treasury Minute, 23 December 1901.

ARMY APPROPRIATION ACCOUNT.

Field Intelligence, &c.

3. A sum amounting to £4,117 19s. 8d., for which there were no vouchers, was included under the certificates of the Secretary of State for War, in Vote I., Subhead A., Pay of General Staff. This sum was paid for services of a confidential nature, and the certificates were similar to those given by the Secretary of State in cases of Secret Service. . . .

Your Committee, whilst acknowledging that these payments were necessary under existing circumstances, consider that they should not be made in the future without Parliamentary sanction, and that provision for such services should be made by a token vote or otherwise under a new heading in the Army Votes.

In their Lordships' opinion a token provision (say £100) for "Field Intelligence, &c.," should be included under a new Subhead of Army Vote 1, in future War Office Estimates, and they are glad to observe from Mr. Marzial's letter of 20 July last that this arrangement, which will ensure the classification of this class of warlike expenditure under Army Votes, is likely to commend itself to Mr. Secretary Brodrick. Against this new Subhead, which will bear no expenditure in time of peace, there should be charged in time of war (i) *expenditure incurred by General Officers Commanding in the Field under paragraph* 660 *of the Allowance Regulations, and* (ii) *such allied expenditure as may have been incurred by the Secretary of State for War, and may be certified by him to have been so incurred. The certificate of the Secretary of State should be similar in form to that now given in cases of expenditure out of the (Civil) Secret Service Vote under the arrangements indicated in paragraphs* 15 *and* 16 *of the Second Report of the Public Accounts Committee of* 1888 [see p. 203].

Estimates of Cost of Works.

7. Upon Vote 10, the cost of the reconstructing the drainage of Hounslow Barracks was very largely under-estimated, and the original cost of £6,500 rose by successive stages to £11,092, or about 70 per cent. in excess of the original estimate. Your Committee also note that a sum of £1,000 was paid by the War Office to the contractor, without any provision having been made by Parliament, and without the sanction of the Treasury having been given.

Your Committee desire to associate themselves with the opinion expressed in the Treasury Letter, No. 40, on page 176 of these

Accounts, that " it is of great importance that estimates of cost " submitted for Parliamentary sanction should be such as the House of " Commons can accept as final," that the executive branches connected with these engineering services should be more accurate in their initial estimates, and more careful that the schedule of prices upon which the estimates are framed corresponds with existing prices, so that there may not be excesses of 149 per cent., of 70 per cent., and of 66 per cent., in a single year upon three works.

Your Committee deprecate in the strongest manner any diversion of Parliamentary funds without Treasury sanction.

By the Treasury letter (No. 12,285) *of 29 July last, my Lords have already drawn the attention of the Secretary of State to the opinion herein expressed by the Committee, and have suggested that an early opportunity should be taken of reviewing the procedure under which the full requirements of Army Works services are not necessarily ascertained before the War Office submits an estimate of cost to Parliament. With reference to Mr. Marzials' letter of 24 July* 1900, *I am to express the opinion that it should be possible to make a preliminary selection—from among the great mass of proposals annually put forward by local military officers—of such works of magnitude as are likely to be included by the Secretary of State in his proposals for Vote* 10, *so that they might be worked out in sufficient detail to admit of accurate estimates of cost being framed in time for inclusion in the Estimates presented to Parliament.*

Occupation of the Bethnal Green Militia Barracks by the Committee of St. John's National Schools, Bethnal Green.

9. A long correspondence, printed in the Appendix, and an angry controversy has taken place on the subject of the occupation of these barracks by the St. John's Schools, which lasted from March 1899 to March 1900. The Treasury demanded a rental covering the ground rent of £90 per annum, the payment of all rates, and the cost of a caretaker. The Committee of the Schools, on the other hand, thought that they should be allowed to occupy the barracks rent-free, on the ground that the building was used for educational and religious purposes, and that they were already heavily burdened by other expenses. In a letter, however, of 10 May 1899, the Committee expressed, through their secretary, their willingness to pay £50 per annum as rent. Your Committee desire, in the first place, to express their concurrence with the Treasury in regretting that the War Office allowed the School Committee to occupy a part of the barracks without having previously settled the conditions of the occupation.

They cannot in any way admit the plea of the School Committee, that they ought to be excused rent on the grounds urged. Your Committee are of opinion that no Department should allow public buildings in their charge to be occupied rent free.

Your Committee are further of opinion that under the circumstances the best course has been taken by the War Office in accepting the sum of £50, which has now been paid on behalf of the Committee for the use of the barracks.

The Secretary of State will note the opinion expressed by the Committee that no department should allow public buildings in its charge to be occupied rent-free, and that the conditions of occupation should be settled before a building is allowed to be occupied.

ANNUAL ACCOUNTS OF THE ORDNANCE FACTORIES.

Depreciation of Machinery and Buildings.

17. Your Committee find from the Comptroller and Auditor General's Report that in the past 12 years £146,567 of the sum written off as depreciation on machinery had been applied in aid of Capital Expenditure on Buildings. They are glad to learn, as the result of an inter-departmental Committee, that the extension of buildings out of funds properly applicable to the maintenance of machinery and buildings in a thoroughly serviceable and up-to-date condition is to cease, and that no diversion of savings upon machinery can be devoted to new building, without Treasury sanction.

It may be convenient if my Lords set out the general considerations which must govern the particular case adduced. The Depreciation Fund of the Factories arises from the charge made to customers for depreciation in value of plant, buildings, &c. Its primary object is to maintain the efficiency of all existing plant and buildings, and for this purpose unexpended balances are allowed to be accumulated within certain limits. It was never intended that the depreciation receipts should be set aside as a cash fund for renewal of the particular kind of capital (buildings, machinery, or stores) in respect of which those receipts have been recovered from purchasers; on the contrary, these payments to the factories (so far as requisite) are annually appropriated in aid of the Factories Vote, and thus tend to diminish the cash grants for capital expenditure as a whole. As extensions or renewals become necessary, whether for buildings or for machinery, the requisite expenditure is sanctioned by Parliament on the Factories Estimate, annually submitted by the Secretary of State, and such expenditure, if it cannot be met from customers' payments within the year, or from the accumulations of previous years, is provided for by a cash grant over and above the usual token Vote which brings the whole of the Factories' expenditure under the cognizance of Parliament.

In the opinion of this Board this procedure is sound, and should be maintained; but no part of the fund arising out of the charges for depreciation on plant or buildings should be used for the purpose of extending the factory, unless the Secretary of State is satisfied that all existing plant and buildings are maintained in a thoroughly efficient condition. Subject to these observations, it is for the Secretary of State to decide the relative urgency in any given year of expenditure on the maintenance of buildings, machinery and stores respectively; and in so deciding he should not be influenced by the source from which the depreciation repayment arises.

FOURTH REPORT, 1901. H.C. 282.

Treasury Minutes, 6 and 23 December 1901.

CIVIL SERVICES APPROPRIATION ACCOUNTS.

CLASS V., VOTE 2.— UGANDA, &C.

Certificates of Payment in lieu of Vouchers.

6. They also desire to express their opinion that in the case of small payments to natives, vouchers need not be required, but that the certificate of the responsible officer that the money has been expended be accepted as sufficient.

T.M. 6 December 1901.—My Lords concur with the Committee in regarding it as unnecessary that officers in the Protectorates making small payments to natives from whom receipts cannot be obtained should be required to furnish detailed receipt forms as vouchers for such payments. The certificate of the responsible officer that money has been expended in this way, and that receipts could not be obtained, may be accepted as sufficient evidence of payment in such cases; but it will, of course, be understood that regular vouchers are still to be furnished whenever they can be procured.

CLASS III., VOTE 19.—ROYAL IRISH CONSTABULARY.

Insane Pensioner.

7. On the Vote for the Royal Irish Constabulary, the Comptroller and Auditor General referred to the case of a pensioner who is insane, and not being a Civil Servant the Treasury held that they could not make payments to his next of kin. Your Committee recommend that this pension should be passed for payment, and that the brother of the lunatic who supports him should receive it.

My Lords understand that, in accordance with the recommendation of the Committee, steps have been taken for payment of the pension to the pensioner's brother, by whom he is supported.

ALLEGATIONS AS TO SALE OF ADMIRALTY STORES.

9. Your Committee, in the course of its sittings, received from Mr. James Fitzalan Hope, M.P. for the Brightside Division of Sheffield, a copy of a letter, dated 1 March 1901, addressed by him to Mr. Clinton Dawkins' Committee on War Office Reorganization, in which he advocated a change in the system of dealing with unexpended balances at the close of the financial year. Mr. Hope's contention was that the desire on the part of Departments to avoid the surrender of unexpended balances led to wasteful expenditure. In support of his argument Mr. Hope mentioned that he had been informed that in one instance (stated to be of regular occurrence) the identical goods ordered by the Admiralty in March at 2*s.* per unit were sold as old stores in April at less than 8*d.*

10. Your Committee felt it to be their duty thoroughly to investigate this allegation, and at their request Mr. Hope appeared before them on 1 May to give evidence. He then stated that he found himself unable to prove the case, and under these circumstances he desired unreservedly to withdraw his allegation and to express his regret at having made it.

11. Your Committee, however, decided to make a complete investigation, and at their request the Comptroller and Auditor General made an exhaustive inquiry into the sale of Naval Stores by the Admiralty during the years 1898, 1899, and 1900, which were indicated by the honourable Member as the date of the alleged occurrence.

12. The Comptroller and Auditor General reported that sales of Naval Stores can only take place as the result of a condemnation by a Board of Survey. All the reports to hand were examined by the Audit officers, and they found no trace in any of the years of such treatment of stores as Mr. Hope suggested. The Comptroller and Auditor General also reported that every case of condemnation of Stores passes through the hands of six officers at different times,

including some very highly-placed officials at the Admiralty. At the request of the Committee the Comptroller and Auditor General subsequently examined the accounts of more than half of the whole of the Victualling Stores for the three years in question, and reports that he found " absolutely nothing which in any way tallies with the allegations " the Committee have had under consideration." At a later date the Comptroller and Auditor General completed his examination of the accounts of the Victualling Stores, the Naval Stores, and the Buildings Works Stores, and reported that not only were the allegations made not found to be substantiated in any of the three years, but that the safeguards which surround the sale of all Admiralty Stores are such as to render any irregularity in the last degree improbable, and that if anything of the kind suggested occurred, it would infallibly be brought to light during the audit by his Department.

T.M. 23 December 1901.—*It will be a matter of satisfaction to their Lordships of the Admiralty as it is to this Board,* (i) *that the Committee should have conducted an independent inquiry through the Comptroller and Auditor General into the allegation (which was subsequently withdrawn) that stores bought by the Admiralty at 2s. per unit in March, were sold as old stores in the following April at less than 8d.; and* (ii) *that on examination of the accounts the Comptroller and Auditor General found the allegation not substantiated in fact, while, in his opinion, the safeguards which surround the sale of all Admiralty stores are such as to render any irregularity in the last degree improbable.*

The specific allegation, my Lords observe, was made in support of a general contention that the desire on the part of public departments to avoid the surrender of unexpended balances led to wasteful expenditure at the close of the financial year. On this subject my Lords have already expressed their opinion in the Treasury Minute on the Second Report of the Public Accounts Committee, 1896 [see pp. 382–3], *in dealing with the relation between a saving on a Vote and the " Old Sinking Fund."*

SECOND REPORT, 1902. H.C. 144.

Treasury Minute, 15 November 1902.

NAVY APPROPRIATION ACCOUNT.

VOTE 2.—VICTUALLING.

Deficiencies of Public Money.

2. It appears that a Deputy Victualling Store Officer at Haulbowline was for some time suspended, and in the end dismissed, his accounts being found deficient to the amount of £421 3*s.* 3*d.*

The balance of his salary accrued during the period of his suspension, £263 4*s.* 7*d.*, was appropriated in reduction of the deficiency and charged against the Vote; and the balance of the deficiency, £157 18*s.* 8*d.*, was charged to " balances irrecoverable."

The Comptroller and Auditor General reports that inasmuch as this balance of salary was not actually paid over to the defaulting officer it should not have been charged against the Vote; but the full amount of loss, £421 3*s.* 3*d.*, should have been written off as the balance irrecoverable, with an explanatory note as to the set-off.

And the Accountant General of the Navy in his evidence adopts this view.

The difficulty of the Auditor is that no receipt by the officer for the salary can be produced to him, the amount not having reached the officer's hand.

But it appears to the Committee that the amount having been properly applied towards the recoupment of the deficiency in the public moneys which had reached the officer's hand, the technical difficulty due to the absence of his receipt for salary should be obviated otherwise; and that the public accounts should be so framed as to show substantially the true facts of the case; and that it would have been objectionable to set down as an " irrecoverable balance " a sum which was not merely recoverable but had actually been recovered by the retention and application of the salary.

My Lords regret not to find themselves in complete agreement with the Committee as regards the mode of bringing to account a balance of salary which was not paid to an official whose accounts on his dismissal showed a deficiency exceeding the salary balance. While my Lords agree that the public accounts should be framed in this as in all other cases so as to show substantially the true facts of the case, they are in accord with the Comptroller and Auditor General, and with the Accountant General of the Navy, in thinking that this object is rightly attained by writing off the gross (not the net) deficiency to Balances Irrecoverable, with an explanatory note to intimate that a saving has been effected under the salary Vote by the non-issue of salary to the defaulting officer. They submit that it would not be correct to treat non-issued salary as having been actually applied to any purpose.

VOTE 4.—SUBHEAD B. (NAVAL PRISONS AT HOME).

Statements of Full Charge involved in Proposals for New Works.

3. £1,500 was granted for the conversion of a Military Provost Prison at Portsmouth into a Naval Prison; and £1,941 was expended in the work of alteration (*Navy Appropriation Account*, 1900–1 *Vote* 10, *p.* 98).

No estimate was made or Vote taken for establishment or salary charges in respect of the prison.

On 21 July following, in the same Session, the Admiralty informed the Treasury of the Vote for alterations, and requested concurrence in the appointment of a staff and the fixing of establishment charges at an estimated yearly charge of £1,760; adding, " no provision to meet the " expense was made in the Estimate; and, if the amount falling on " 1900–1 cannot be met out of the ordinary provision, a further communication will be made."

The Treasury on 11 August replied, making inquiries, and adding: " In the absence of further particulars showing the extent to which it is " expected that the new prison will have to be brought into use in the " present and future years, my Lords would feel it difficult to sanction " the immediate creation of an establishment costing as much as £1,760 " a year, for which Parliament has made no provision."

After further correspondence, and on the representation of the Admiralty that expenditure could not be deferred without detriment to the public service, and could not be met out of savings on the Navy Vote, the Treasury on 8 October consented to waive that condition, and the organization was proceeded with and expense incurred.

Your Committee do not question the necessity for this expenditure; but it is, in the opinion of your Committee, regrettable that when the Vote was taken for the alteration no Vote should have been submitted to

Parliament in respect of that permanent yearly establishment expenditure which was so soon after undertaken, and which is a burden infinitely larger than the Vote.

And your Committee recommend that every effort should be made to lay before Parliament at the time of inception the full estimated charge involved in proposals of this nature.

Their Lordships of the Admiralty will take note of the Committee's recommendation that every effort should be made to include in Parliamentary Estimates the full charge involved in proposals such as those relating to the staff of the Portsmouth Naval Prison. My Lords are confident that they may count on the co-operation of the Board of Admiralty in restricting departures from the general rule to urgent cases which cannot be foreseen, and which cannot, without serious detriment to the public service, be postponed till the specific sanction of Parliament can be obtained.

Balances Irrecoverable and Claims Abandoned.

Small Sums.

11. In the account of Balances Irrecoverable and Claims Abandoned, your Committee recommend that sums below £5 should not be entered in detail, but appear at the end of the Account as one item, under the head of Sums under £5.*

Under the arrangements sanctioned by the Treasury on 17 June and 25 July last (No.11,180), the writing off of such small items will fall within the enlarged powers of the Board of Admiralty, provided no suspicion of fraud is involved.

By letter of 10 June last (No. 9239) my Lords have already directed that items under £5 in any one case should not be entered in detail in the list laid before Parliament under the Dispensing Order in Council of 1881,† but should appear at the end of the list as one item under the general head of "Sums under £5."

Loan of Stores: Insurance.

12. Your Committee are also decidedly of opinion that all patterns or stores upon loan from the Admiralty should be insured by the contractors to whom they are lent, and they are glad to learn that the forms of contract have been altered to secure this.

THIRD REPORT, 1902. H.C. 232.

Treasury Minute, 15 November 1902.

Army Appropriation Account.

China Expedition: Control of Expenditure in the Field.

4. The provision made by Parliament for expenditure in connexion with the China Expeditionary Force was £3,500,000, in two Supplementary Estimates of July and December 1900. Of this the sum of £3,270,000 is already accounted for in the Appropriation Accounts of 1900–1, and allocated, as extra charges for the China Expedition, to the proper Army Votes. There will be, however, a certain additional charge

* The limit is now £20 on both Navy and Army Accounts, see Navy Appropriation Account, 1904–5, H.C. 7, 1906, p. 153, and P.A.C. Report, 1906, Q. 1082.

† See p. 115.

for the war which did not come in time to be included in these accounts, and will be included in the following year.

The Committee examined the Comptroller and Auditor General with reference to the audit of this expenditure, which was of two kinds, first, expenditure for the preparation of the force in India; and, secondly, the expenditure which took place in China when the force had arrived there.

In India the expenditure was audited by the audit branch of the Military Department, vouchers were sent home and examined here, and the Committee agree with the Comptroller and Auditor General that Parliament may accept the audit of the Indian authorities.

With respect to the expenditure in China it has been examined, and is vouched for by certain members of the Indian Accounts Department, who are always attached to Indian expeditionary forces as independent auditors.

The Comptroller and Auditor General has received an assurance from the Indian Government, that this Field Audit Office is entirely dissociated from the Accounting Departments in the Field, and that the Field Examiner's signature to the classified abstracts of receipts and charges implies independent examination and final passing after settlement of objections in audit.

Your Committee, therefore, are of opinion that this Field Audit of expenditure in China may be accepted as sufficient by Parliament.

They are also desirous of expressing their opinion that in future expeditions from this country some similar system of audit to that in practice in Indian expeditions should be adopted. At present there is nothing comparable to the Indian Field Audit as regards cash accounts. With regard to the accounts of supplies of food an independent branch of the Commissariat and Transport Corps audits these, but a local audit of cash accounts is much to be desired. The absence of a trained staff is said to be the reason, but your Committee believe that under the new Army Corps' system of local accountants a sufficient staff of trained auditors could be provided for any expedition. This would secure an independent audit in the place where such audit can be made, instead of postponing it to such time and place as renders effective audit impossible.

In connexion with the accounts of this expedition, as also (in the Fourth Report) in connexion with South African accounts, the Committee make the following observations with regard to the control of expenditure, &c., in the field:—

(i) "*They are desirous . . . effective audit impossible*" [see above].

(ii) *"*"*The difficulty of obtaining evidence as to taking the supplies on charge remains, and this cannot, in your Committee's opinion, be removed until officers experienced in local audit and taking of supplies on charge are sent out to accompany the troops on the march. It has been abundantly proved to your Committee that no such supply of officers now exists, and that their absence has been the main cause of the imperfect control of the expenditure in South Africa. It has been promised that the regulations shall be thoroughly revised and amplified for the varying circumstances of war, but no such improvements will rectify the present want of system, without a staff of officers, fully trained both in the duties of audit and of taking over supplies, to control expenditure in the field.*"

* Quoted from Fourth Report, para. 3.

(iii) *" *In concluding their Report upon the Army Appropriation Accounts, your Committee desire to emphasize the necessity (imperative in their view for remedying the defects brought to light by the late war), first, of the appointment to any future field force of a body of trained officials who understand the business of taking supplies on store [charge] and keeping military accounts; second, of enforcing upon all officers dealing with public money the necessity for obtaining the best available vouchers for any expenditure they may incur.*"

Accepting as they do the principles underlying these important recommendations of the Committee, my Lords proceed to indicate the steps which, in their opinion, it will be proper to take in order to give effect thereto.

As regards the last point raised by the Committee, viz., the necessity for obtaining the best available vouchers of expenditure from officers entrusted with public money, this will be met by the proper use of Army Book No. 67. If officers purchasing supplies in the field duly insert full particulars therein of " Nature of Service and Amount Payable," this form—which is in effect both a cheque with details furnished by the purchasing officer and a receipt from the vendor—forms a complete voucher for the paying officer, as the Committee recognize in their Fourth Report.

As regards the taking of all supplies so purchased on store charge, it is, of course, as essential in principle for stores as for cash that a continuous record should be kept of incomings and outgoings so that all supplies may be traced from the time of their receipt to the time of their consumption; and the maintenance of such a record is of prime importance in ensuring care and preventing extravagance in dealing with public property. The difficulty which has been experienced in the recent operations has arisen, as my Lords understand, not from the absence of proper regulations or from ignorance thereof on the part of the Army Service Corps, but from the inexperience of combatant officers who necessarily undertook these departmental duties in connexion with detachments and scattered bodies of troops in the field. As it is impracticable to have a trained departmental officer with every such detachment, the remedy must be sought in the preparation of simple but adequate instructions respecting store charge, which could be issued for the guidance of combatant officers at the outset by the Army Service Corps officers whose deputies and sub-accountants they become. Under such a scheme it should be possible to ensure an adequate record of supplies for incorporation with the store accounts kept by the Army Service Corps.

My Lords now proceed to lay before the Secretary of State an expression of their views on the larger question raised by the Committee of creating in time of peace a body of trained officials who would be at once available for service in the field. Such a body is already in course of creation and training, as the Committee recognize, under the new system by which officers of the Accountant General's Department are now detached from the War Office for a term of service at the Army Corps headquarters at Aldershot, Salisbury Plain, and Dublin. So far as " audit " is concerned, i.e., the acceptance of charge of expenditure against Army Votes, this is being done, and no change is necessary in the arrangements sanctioned on the Report of the Dawkins' Committee.†

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* Quoted from Fourth Report, para. 16.

† Committee on War Office Organization; Report presented to Parliament in 1901 as Cd. 580.

But, in the opinion of this Board, further steps are necessary in order to place matters on a satisfactory footing. The scheme of devolution, they suggest, should not be allowed to stop at "local audit," but should extend—if the civilian staff with the Army Corps is to be utilized to the full—to

(i) *the placing of local purchases, whether by contract or otherwise, and*

(ii) *the custody and disbursement of cash.*

Just as the civilian Director of Contracts deals with contracts in Pall Mall, so the civilian staff with the Army Corps should deal with local contracts; and this will readily be possible in the early future under the recent reorganization whereby the civil staff of the War Office has been consolidated and will be trained in contract duties as well as in the financial duties of the Accountant General's Department. If the cash duties now discharged by the Army Pay Department be added to the financial and contract duties above indicated, the result should be to form a consolidated business department trained in times of peace to discharge the responsible duties required on active service.

My Lords trust that these views may receive the concurrence in principle of the Secretary of State for War.

NON-VOTED ACCOUNTS.

5. It appears that no reports are made of the expenditure of money under certain Trusts, under the control of the War Office. Your Committee are of opinion that the War Office should obtain reports as to the expenditure of all the income under these various Trusts annually, and submit them to the Comptroller and Auditor General.

The Secretary of State, as my Lords understand, desires to give effect to the suggestion of the Committee that annual reports should be obtained by the War Office and communicated to the Comptroller and Auditor General in respect of all the trust funds referred to, with regard both to income and expenditure.

FOURTH REPORT, 1902. H.C. 273.

Treasury Minute, 15 November 1902.

ACCOUNTS RELATING TO SOUTH AFRICAN EXPENDITURE.

IMPERIAL YEOMANRY AND RHODESIAN FIELD FORCE.

Equipment entrusted to Volunteer Agencies.

6. In raising and equipping both these forces the War Office, owing to extreme pressure, found it necessary to apply to outside agencies. In the former case they entrusted the duty to the Imperial Yeomanry Committee, and in the latter to the British South Africa Company, to whom they made advances to the amount of nearly £1,8000,000. The result so far as concerned the raising the men appears to have been satisfactory, but in a financial point of view it was far otherwise.

In the first place both forces were competing with the regular Army in the same market for the same articles; in the second place, none of the articles purchased for these corps could be submitted to the usual inspection (the War Office capacity for inspection being exhausted), and in the case of the Yeomanry some articles were passed by the Indian Store Depôt, and afterwards rejected at Woolwich. The Yeomanry, in fact, paid higher prices for articles of their equipment and got inferior goods.

The accounts of both these corps are not yet closed, nor have any store accounts been received from the British South Africa Company in respect of the equipment of the Rhodesian Force. On receipt at the War Office these accounts will be scrutinized and passed on to the Comptroller and Auditor General. Your Committee have, however, no hesitation in expressing their strong opinion that the duties of raising and equipping forces, such as these, should be dissociated, and that while it may be well to entrust the raising of a force to volunteer committees, the equipping of the force should always be in the hands of the regular Army agencies.

The Secretary of State will take note of the expression of the Committee's strong opinion, with which my Lords desire to associate themselves.

Vote 6, Subhead D.—Purchase of Remounts.

Definite Instructions to Purchasing Officers necessary.

9. A sum of £168,000 has been paid for remounts for which only the receipts of the agent, through whom the animals were bought, and not the receipts of the vendors, can be produced. Evidence has been given that in one case of the purchase of mules in Spain, it was discovered by the Purchasing Officer that an agent locally engaged by him was receiving a commission both from the British Government which was purchasing and from the dealers who were selling mules. This agent was dismissed, and the price of mules went down, but his brother, employed by another British officer, was retained, and the price of mules in the latter case exceeded that in the former.

Your Committee were informed by the War Office that these officers were sent out " with general instructions to purchase mules, leaving " everything as to any details of the method of purchase, or adequate " vouchers, to their own discretion," without their attention having been called to existing Army regulations on the subject.

Your Committee desire to express their strong disapproval of this course of proceeding, and they are of opinion that in all cases involving purchases for the Government every officer sent out should have instructions distinctly showing what is expected from him, and laying down certain broad lines, pointing out the dangers which should be avoided.

My Lords presume that steps will be taken at once, while the experience of the late war is still fresh, to prepare instructions accordingly which would be available forthwith in the event of another emergency arising.

Vote 14.

Widow's Pension; Posthumous Promotion of Officer.

14. Upon this Vote a question arose as to the increase of a pension from a major's to a lieut.-colonel's rate by the authority of the Secretary for War, through which the widow and two children of Major E. W. Yeatherd, Royal Lancaster Regiment, benefited, although the deceased

officer was gazetted to a lieut.-colonelcy 12 months after his death

. . . .

The Committee do not agree that the Secretary for War had the power to grant to an officer's widow a pension of a rank to which her husband had never been recommended in his lifetime, and they concur with the decision arrived at between the Treasury and War Office, that an alteration should be made in the Royal Warrant providing that the posthumous grant of permanent rank to an officer must, in order to qualify the officer's family for the pension of such rank, not only have been earned, but determined upon independently of his death, and at a time when he was at least supposed to be living.

FIFTH REPORT, 1902. H.C. 296.

Treasury Minute, 30 December 1902.

Civil Services Appropriation Accounts.

Class III., Vote 9.—Broadmoor Criminal Lunatic Asylum.

Farm and Garden Accounts.

3. It was suggested by your Committee that as the farm at Broadmoor is not worked as a commercial business it would be well to omit from the Appropriation Account the details of articles bought and sold during the year, and this the Treasury promised to consider.

To the Superintendent, Broadmoor Criminal Lunatic Asylum.

My Lords concur in the opinion of the Committee that it is unnecessary to include the details of the Farm and Garden Account in the Appropriation Account of the Vote as submitted to Parliament. They desire, however, that you will continue to render the detailed account as at present, in connexion with the Appropriation Account, to the Comptroller and Auditor General, who will be able to furnish therefrom such particulars as he may think necessary for the information of Parliament.

Class III., Vote 22.—Dundrum Criminal Lunatic Asylum.

4. A similar suggestion and a similar undertaking were made in reference to the omission from the accounts of the details of farm stock at this asylum.

To the Governor, Dundrum Criminal Lunatic Asylum (as at para. 3.)

Class IV., Vote 1.—Education, Science and Art.

Penalties for Incorrect Registration of Attendance.

5. The Comptroller and Auditor General called attention to the fact, that as the result of an audit made by the Education Department itself, "the Board have discovered with great regret that the managers' "certificates, given in the case of certain Science and Art Schools, "were unreliable," and that grants amounting to about £6,000 had

been questioned. Of this sum £5,890 was refunded by the managers, and £268 was deducted from the payments due in respect of the schools in the year following. The Comptroller and Auditor General further reports, " that the Board has also admitted erroneous payment " of grant in respect of scholars in attendance at Evening Continuation " Schools who had also earned grants in the same subjects as students " at Science and Art Classes." . . .

The Department has now issued new regulations, and the form of claims will be much simplified.

The importance of this question is much increased by the fact that the large grants, amounting to upwards of £8,000,000 payable under C 2, C 4, C 6, and C 7 to Elementary Schools are also based upon figures certified by the managers, and that the Department is dependent upon their reliability.

It does not appear to your Committee that any further steps can be taken in the way of inspection; but your Committee are of opinion that the most stringent directions should be given to the managers that they should insist upon the registers being filled up at the time, and not *en bloc* for a week, or longer, together.

They are also of the opinion that there should be some fine imposed upon a school from which incorrect registers are returned, by a reduction of the grant beyond the amount unfairly claimed by the incorrect register, and that the present Code ought to be altered so as to admit of a money penalty. . . .

My Lords concur with the Committee as to the grave importance of this question, in view of the magnitude of the sums of public money which are paid upon figures certified by the School Managers. They desire that the Committee's recommendations may receive careful consideration, and that they may be informed of the measures which your Board propose to adopt for better safeguarding the Vote against erroneous claims.

[In P.A.C. 4.1903.5 the Committee express satisfaction that their recommendations have been adopted.]

CLASS IV., VOTE 5.—WALLACE COLLECTION.

Extra Receipts; Appropriation in Aid of Votes.

6. Your Committee observe that the fees for admission to the Wallace Collection are taken as Appropriations in Aid of Vote 5, while those for admission to the National Portrait Gallery are paid into the Exchequer; they see no difference in principle between these two sets of receipts, and are of opinion that they should be treated alike.

My Lords submit that there is no difference in the nature of the receipts in these two cases to call for different treatment. But they desire to submit that the total amount of the cash receipts estimated to accrue in connexion with a particular Vote should be a material consideration in deciding whether a credit Subhead should be opened in that Vote. This view was acted upon by the Treasury in their Minute of 1 January 1896 (House of Commons Paper, No. 46, of 1896), which dealt generally with the appropriation of cash receipts in aid of Civil Votes, in pursuance of directions from the Public Accounts Committee. In that Minute it was pointed out that some extra receipts, from the uncertainty of their amount or for other causes, were not suitable for appropriation, so that there was no prospect of securing absolute uniformity of practice. The general conclusion was stated as follows:—

" *In fulfilment of the undertaking which they have given to meet the wishes of the Public Accounts Committee in the matter,*

so far as expediency may dictate, my Lords consider that the system of Appropriations in Aid may now be extended so as to include all the cases referred to in Part I. of the Appendix, where the receipts are estimated to amount to not less than £1,000.

The Public Accounts Committee of 1896 in their Third Report [see p. 390] *referred to the Treasury Minute and mentioned the limitation to receipts of not less than £1,000. They did not indicate any objection to its adoption.*

It was in pursuance of this rule that the receipts of the Wallace Collection, estimated to amount in 1900–01 to £1,500, were appropriated in aid of the Vote, while the receipts of the National Portrait Gallery, estimated at only £175, were not appropriated.

The purpose of the system of Appropriations in Aid is to prevent the Votes of Parliament being needlessly increased by expenditure to which there are counterbalancing receipts. This purpose appears to be sufficiently fulfilled without extending the system to Votes on which the receipts are of inconsiderable amount. As there are some Civil Service Votes on which the estimated receipts do not exceed £10, it seems obvious that some limit of amount must be observed. My Lords are of opinion that the limit of £1,000, adopted in 1896, is a convenient one. They desire, therefore, to submit to the Committee these considerations in support of the rule now in force.

SIXTH REPORT, 1902. H.C. 297.

Treasury Minute, 15 November 1902.

Ordnance Factory Accounts.

Prevention of Waste.

The Comptroller and Auditor General, in his Report on the Accounts of the Ordnance Factories, makes the following observations:—

> " In the examination of the Remain of the Royal Laboratory Stores it was noticed that the ashes of the Brass Foundry and Rolling Mills were valued at £5 17*s.* 6*d.* and £6 2*s.* 6*d.* a ton, respectively, on 31 March 1901, although the price obtained for them on sale during the year was 3*s.* 4*d.* a ton only.
>
> " In reply to an inquiry as to this apparent discrepancy in rates, information has been furnished which shows that the basis adopted for valuation is correct, inasmuch as a new contract was entered into at the close of the year at the higher rates. . . ."

Your Committee have made investigation into the condition of things thus brought to light, and have examined Colonel E. Bainbridge, C.B., the Chief Superintendent of the Ordnance Factories, on the subject. His statement is that for many years the ashes from the brass foundries of the several Factories have been used for the purpose of making and repairing the roads of the Royal Arsenal, the Superintendent of Building Works paying out of public funds the sum of one shilling a ton for the ashes and dross from the Gun Factory, but receiving them free of charge from the other factories which produce them. Only a small quantity comes from the Gun Factory, the bulk being yielded by the Royal Laboratory and the Gun Carriage Factory. . . .

The ashes which the Factories now produce are worth nearly £10,000 a year, after the large pieces have been picked out.

In examination by your Committee, Colonel Bainbridge at first expressed the opinion that the principal foremen of the factories were the persons to be blamed for the heavy waste of valuable material that has been going on for many years, but he afterwards stated that the Superintendents of the separate factories were responsible, though they must, he thought, depend upon their foremen " to report these things." He considered that the Superintendents ought to have found out the waste if they " had been properly supplied with information," though he " did not really see how the Superintendent can go and grope about " his factory and inspect his ash heaps. It is surely the business of " someone to tell him about it."

Your Committee feel unable to receive these explanations as satisfactory. An inexcusable waste of a valuable metal, such as brass, has been going on for many years, the total loss in connexion with which is possibly £250,000 and yet the witness considers that the responsible heads of the various factories can hardly be held accountable unless a subordinate, receiving weekly wages, calls attention to what is taking place. A residual of manufacture, which after full consideration had long been valued at 1*s.* a ton, and had recently been disposed of at 3*s.* 4*d.* a ton, is now sold to the persons who bought 626 tons of it at the latter price for about £6 a ton, and even now there is no guarantee that the price given is adequate, because no analysis of the ashes has been made, and the witness does not deem it necessary to put the matter to such a test.

If it had not been for the intelligent action of the police, the probability is that the gross waste now disclosed would still be going on unchecked.

Your Committee, whilst accepting the statement of Colonel Bainbridge, that, owing to the multitude of duties which the Chief Superintendent of the Ordnance Factories has to discharge, it is impossible for him to concern himself closely with the details of business in the separate Departments, cannot admit that the prevention of waste in those Departments is not a direct, primary, and obvious duty of the Superintendent in immediate control, whether he has his attention called to the matter, or not.

It is evident to your Committee that the reason why this heavy and constant waste has been permitted to occur is the want of the particular kind of knowledge and training required for the discharge of the duties of the posts to which they were appointed on the part of those who have been selected to occupy the chief positions of authority in the several manufacuring establishments which comprise the Royal Arsenal. Your Committee are strongly of opinion that the daily superintendence and management of these manufactories ought not to be entrusted to persons without experience of the methods pursued by the outside trade in relation to the various processes carried on, with a view of securing the most economical and satisfactory general results. The business of works management is a profession in itself; and, as an almost invariable rule, those only are really qualified for it who have been trained in manufactories where the best methods and appliances for saving waste in every direction, and where the incentive of having to meet competition and to work to a profit, are daily in operation. It is to be remembered that all waste that takes place at the Factories obviously results in increasing the cost of the articles produced; and, as that cost has much to do with determining the prices paid to private makers for similar

articles, the importance of preventing extravagance and waste in production becomes the more manifest.

Your Committee have thought it right to call special attention to the circumstances of this case as it appears to disclose a state of things to which an early and effectual remedy should be applied.

The direct responsibility for the administration of the Ordnance Factories is vested in the Secretary of State for War, from whom, accordingly, my Lords will be glad to receive an expression of opinion on the important recommendations which the Committee has made. Meantime, my Lords think it well to state that, for their part and on the information before them, they are in accord with the principle of the Committee's recommendations.

[See further P.A.C. 5. 1903, at p. 458.]

APPENDIX No. 5, TO REPORTS 1902.

Treasury Chest Fund.

(PAPER handed in by Mr. *Robert Chalmers*, C.B.)

The Treasury Chest Fund, previously called in succession the "Army Extraordinaries Fund" and the "Commissariat Chest Account," dates back to 1 April 1833, when the annual Vote for Army Extraordinaries ceased to be taken. The fund originally arose from the outstanding balances of the annual Votes for Army Extraordinaries up to 1832-33.

Details of the early history of the fund are given in the Report, &c., of 1857 from the Committee of Public Monies, who recommended (*see* also Third Report from the Public Accounts Committee of 1861) that the regulations of the fund, which was still a non-statutory fund at the disposal and under the sole control of the executive Government, should be confirmed by an Act of Parliament providing for the following objects, viz.:—

1. To limit the amount of the balance to be retained to the credit of the fund and to provide that, if at any time it should exceed the limit fixed by law, the surplus should be paid to the Consolidated Fund.
2. To provide that no final expenditure should be charged on the fund.
3. To provide that the fund should only be employed for the legitimate banking operations of the Treasury Chests Abroad and for advances for public and colonial services repayable out of Votes of Parliament or other funds applicable thereto.
4. To provide that accounts should be laid before Parliament every year, showing the cash operations of the fund at home and abroad during the financial year, and the assets and liabilities of the fund at the close of the year.

The statutory period of the fund begins with the passing of the Treasury Chest Fund Act, 1861 (24 & 25 Vict. c. 127). By this Act the following conditions were enacted:—

1. The available balance of the fund was limited to £1,300,000, and any surplus at the end of a year was to be paid to and form part of the Consolidated Fund.
2. The Treasury could operate on the fund—
   (*a*) For purchase of specie and payment of bills for the supply of the Treasury Chest;
   (*b*) For temporary advances for public and colonial services, to be repaid from Votes, &c.; and
   (*c*) For repayment of deposits in the Chests abroad on account of the public service.

3. No expenditure whatsoever was to be finally defrayed out of, or permanently charged upon, the fund.

4. The Commissioners of Audit were to prepare annual accounts of the fund and to transmit them to the Treasury, who were to communicate them to Parliament.

In 1873 (36 & 37 Vict. c. 56) the capital of the fund was reduced to £1,000,000.

After the passing of the Exchequer and Audit Departments Act of 1866, the Audit Office continued to prepare the fund accounts in accordance with the Act of 1861; but in 1877 this duty was transferred to the Treasury by the Act 40 & 41 Vict. c. 45, which re-enacted the 1861 and 1873 provisions, with the additional provision that the cost of freight of specie—formerly defrayed by an annual Treasury Chest Vote—was also imposed upon the fund. The 1877 Act still regulates the fund (except as regards the balance, which was reduced to £700,000 by the Act 56 & 57 Vict. c. 18) and may conveniently be quoted here . . .

Short Title.

1. This Act may be cited as the Treasury Chest Fund Act, 1877.

Mode of employment of Treasury Chest Fund.

3. The Treasury may employ the Treasury Chest Fund in making temporary advances for any public service, to be repaid to the Treasury Chest Fund out of money appropriated by Parliament to such service or out of other money applicable thereto, and in the repayment of money deposited in any Treasury chest on account of any public service and for the above purposes may, out of the Treasury Chest Fund, purchase and remit specie or bills and pay bills drawn on the Treasury.

No expenditure whatever shall be finally defrayed out of or permanently charged upon the Treasury Chest Fund.

Annual Account of Treasury Chest Fund.

4. The Treasury shall, as soon as is practicable after the end of every financial year, prepare an account showing for that year the receipts and payments of the Treasury Chest Fund, distinguishing those of the several Treasury chests, and the assets, liabilities, and available balance of the Treasury Chest Fund at the end of the said year, distinguishing the balance of each Treasury chest.

The Treasury shall, at the same time, prepare an account, showing for the same financial year the profit and loss arising out of the employment of the Treasury Chest Fund during the year, whether from exchange, expenses of remittance of specie, or otherwise howsoever.

The Treasury shall transmit the said accounts to the Comptroller and Auditor General, who shall examine the same in accordance with any regulations that may be prescribed by the Treasury under section 33 of the Exchequer and Audit Departments Act, 1866 (29 & 30 Vict. c. 39) and shall certify and report upon the same.

The said accounts, with the said certificate and report, shall be laid by the Treasury before the House of Commons on or before the last day of the financial year next following the year for which the account is made up, if the House be then sitting, or if not, then within one week after the then next sitting of the House.

Payment of Profit into Exchequer, and of Loss out of Votes.

5. Where the said annual account shows a profit to the Treasury Chest Fund in a financial year, that profit shall be paid into the Exchequer, and where the account shows a loss, that loss shall be reimbursed to the Treasury Chest Fund out of moneys provided by Parliament.

Definitions.

6. In this Act—

The expression "the Treasury Chest Fund" includes all balances in Treasury chests, or in the hands of persons acting as paymasters for the said fund.

The expression "public service" includes colonial service.

The expression "financial year" means the twelve months ending on the thirty-first day of March . . .

It will thus be seen that the Treasury Chest Fund is a central banking fund, under Treasury control, which exists for the purpose of laying down funds abroad (mainly by bill operations and telegraphic transfers) to carry on the public service generally. The capital of the fund is kept at the Pay Office in so far as it is not in the chests abroad. On 31 March 1902 there were 15 Treasury Chests abroad at Barbados, Bermuda, Cape of Good Hope, Ceylon, Egypt, Gibraltar, Hong Kong, Jamaica, Malta, Mauritius, Natal, Nova Scotia, St. Helena, Sierra Leone, and Straits Settlements.

Exchange operations, &c., are charged against the Profit and Loss Account of the Fund, which makes its advances to Public Departments at par and recovers its advances periodically from the provision annually voted by Parliament for the services administered by the Departments which require advances abroad. The principal Departments concerned are the War Office, the Admiralty, the Foreign Office, and the Colonial Office.

The annual net result of the intermediary operations of the Treasury Chest is either a profit or a loss, the former being paid to the Exchequer, while the latter is voted by Parliament, so that the working balance remains at the statutory maximum from year to year.

SECOND REPORT, 1903. H.C. 140.

Treasury Minute, 24 December 1903.

NAVY APPROPRIATION ACCOUNT.

VOTE 8.—SHIPBUILDING.

Penalties for Late Delivery.

3. The Report of the Committee appointed by the Admiralty to consider the question of penalties, . . . has now been presented to Parliament.* It is to the effect that nothing will be gained, and something may be lost, by making it a rule to enforce penalties with regard to delay in construction. The Committee were of opinion that shipbuilding has now pretty nearly overtaken the Estimate, and that the exceptional causes of delay, viz., the strike in the trade, the failure of particular firms, and the great increase of building in the Mercantile Marine, have ceased to operate.

The Committee were decidedly in favour of retaining the penalty clause, and the form of contract both for ships and guns has now been altered to admit of fines being imposed, even though changes have been made in the drawings or plans of a ship, or in its engines, or in a gun, subsequent to the contract being made. Penalties are and will be inflicted in cases where there are any laches on the part of the contractor, but not where the delay appears to have been unavoidable.

* Report of the Committee appointed to inquire into the Arrears of Shipbuilding, presented in 1902, Cd. 1055.

A better system of supervision has also been established this year by a change in the Controller's Department. Your Committee are, therefore, prepared to accept the assurance of the Accountant General that the Admiralty are now doing as much as they can to enforce the completion of contracts at the proper time by the imposition of penalties.

VOTE 10.—WORKS AND BUILDINGS.

Execution of Works by one Department for another.

4. On this Vote, two salient examples were given of waste and incorrect estimating occasioned by the execution of works by one Department for another . . . Your Committee . . . recommend that building by one Department for another should in future be confined within the narrowest possible limits. . . .

Their Lordships are in general accord with the Committee's recommendation, and agree that, wherever it has a resident Works Officer, each Department should carry out its own works. They note (Q. 428), *that in future this will be the Admiralty practice at home (except at Woolwich); and abroad, at Gibraltar, Malta, Hong Kong, and Bermuda.*

DOCKYARD EXPENSE AND MANUFACTURING ACCOUNTS.

12. The Comptroller and Auditor General has placed in his Report, paragraph 6, a list showing in contrast the original Estimate and final expenditure upon ships, in accordance with an undertaking given to this Committee last year.

THIRD REPORT, 1903. H.C. 212.

Treasury Minute, 24 December 1903.

ARMY APPROPRIATION ACCOUNT.

War Expenditure; Reserve of Officers for Remount Duties.

1. . . . In adopting the plan of proceeding by Estimate, and not by Vote of Credit, in deference to the wishes of the Treasury, the War Office must, in the opinion of your Committee, be allowed considerable latitude both in bringing the expenditure to account within the proper year, and in estimating in detail for each separate Vote and Subhead. From a paper handed in by the Accountant General, your Committee learn that the Remount Department which consisted before the War of eight persons, employed in purchasing yearly 2,500 horses, was only strengthened by the addition during the War of three officers and four clerks. Inasmuch as the expenditure in a single year upon remounts had grown to upwards of £7,000,000, your Committee cannot but regard these additions as entirely inadequate to control such an expenditure, and they strongly recommend the formation of a reserve of officers from the Cavalry, capable of undertaking remount duties, both at home and abroad, should another war necessitate their services.

The formation of a reserve of officers for remount duties such as is recommended by the Committee, has already been sanctioned—vide *Treasury Letter* (2837/03) *of 23 February* 1903.

Suspension of Regulations.

Certificate as to Authority for Expenditure.

2. Your Committee desire to notice a case in which two entire squadrons of an Imperial Yeomanry Regiment were exempted from the performance of drills, upon which their claim for pay and allowances during annual training depends. This power of waiving the enforcement of the Regulations was exercised by the officers commanding corps, and not by the General Officer Commanding the District, and the War Office agree that it should not have been so exercised without Treasury sanction. Your Committee are, however, further of opinion that the Regulation was never intended to cover the exemption from drill of entire squadrons, who claim pay and allowances, but only of individual yeomen who may be exempted by the special authority of the General Officer Commanding.

In this connexion the Accountant-General has agreed to insert a certificate similar to that given in the Navy Accounts, that he declares to the best of his knowledge and belief that no part of the expenditure contained in the Appropriation Account has been incurred without authority superior to that of the Department in cases where such superior authority is required by the Regulations. [*Cp. Report* 1868, *para.* 3, *see p.* 20.]

My Lords note with satisfaction that, in signing the Army Appropriation Account of future years, the Accountant General of the Army (following the lines adopted by the Admiralty) will certify that, to the best of his knowledge and belief, no part of the expenditure contained in the account has been incurred without authority superior to that of the Department in cases where such superior authority is required by the Regulations. Their Lordships attach great importance to maintaining the direct and personal responsibility of Accounting Officers for the due expenditure of public moneys (vide *paragraph* 5 *of Second Report from the Public Accounts Committee of* 1883) [see p. 142] ; *and they are glad to observe from the War Office Letter of* 10 *March* 1903 *(in connexion with the irregular payment to the two squadrons of Imperial Yeomanry to which the Committee draw attention), that the Secretary of State has directed that the various Branches of the War Office shall not in future issue instructions which involve expenditure, if such expenditure is not clearly covered by Warrant or Regulations, without previous reference to the Accountant-General, to whom my Lords note that the "title and status of Assistant Financial Secretary" is being restored* (vide *War Office letter of* 27 *November last).*

Debtor Balances on Non-Effective Soldiers' Accounts.

10. These Debtor Balances show the large increase of £17,325 against £3,000 in an ordinary year . . . The total amount was . . . charged to Vote I., Subhead E., which provides for the charge of the debts of men who die, desert, or are discharged in debt for clothing or necessaries. Your Committee are of opinion that these charges, which are mostly unavoidable, should be carried, as is the practice in the Navy Accounts, to Balances Irrecoverable, so that Parliament may have a more accurate knowledge of the specific charge, without its being mixed up with other items as in Vote 1., Subhead E., and that this change should be made in 1904–5, as a distinct Parliamentary provision has been made in the Estimates of the present year 1903–4.

My Lords note that in connexion with debtor balances on Non-Effective Soldiers' Accounts, the War Office (Q. 1583) *are prepared, in accordance with the Committee's recommendation, to adopt for*

1904–5 *the Admiralty practice of debiting such losses to "Balances Irrecoverable," as a specific charge in the Appropriation Account, instead of against Vote* 1, *in which specific provision is now made under Subhead E.*

Payment of Irregular Contingents.

13. The payment of scouts from the proceeds of captured stock, a very irregular proceeding, was sanctioned by the military authorities in South Africa, in allowing a part of the payment to the National Scouts, Brett's and Loxton's Horse, to be made by percentages upon the stock captured by them, instead of the stock being handed over entire to the Army Service Corps. The excuse given was, that it was desirable to give to these burghers an opportunity of recovering their stolen cattle and to preserve breeding animals in the country. Your Committee are glad to find that the Secretary of State for War disapproved of the raising of these corps on such conditions, and they desire to record their emphatic disapproval of such encouragements to looting being given on any future occasion to irregular troops.

This view is in accord with the views previously expressed by the Secretary of State and this Board when the local arrangement was first brought to notice.

STORE ACCOUNTS OF THE ARMY.

Losses.

14. . . . Your Committee are of opinion that in the case of losses exceeding £1,000, a note should be appended to the Appropriation Account showing the value of the stores and the amount recovered in respect of such losses.

My Lords concur in this opinion and request that, when such a case arises in future, the course recommended by the Committee may be taken by the War Office.

CHELSEA HOSPITAL.

15. A comparative statement of the estimated and actual expenditure of Chelsea Hospital is for the first time, in accordance with the recommendation of this Committee, appended to the Account.

FOURTH REPORT, 1903. H.C. 304.

Treasury Minute, 24 December 1903.

PUBLIC BUILDINGS EXPENSES ACT, 1898.

Temporary Investment.

3. Your Committee think it right to call attention to the serious loss which has resulted from the investment by the National Debt Commissioners of the funds issued to them for temporary investment, under the Public Buildings Expenses Act, 1898. . . .

Your Committee would point out that Consols, being liable to fluctuations, are more suitable for permanent than temporary investment, and would invite the Treasury to consider whether in similar cases hereafter

such investments should not be made in Treasury Bills or in some other securities in which the capital sum would not be liable to diminution.

The Committee draw attention to the loss which has occurred from the investment mainly in Consols of the sum of £2,360,000 which was issued to the National Debt Commissioners under this Act. The Consols were purchased for the most part at the high prices which obtained in 1898 *and a part of the year* 1899. *The subsequent sales of Consols which have been effected from time to time, as money was required for the purposes of the Act, have necessarily been made at a much lower range of prices. Since the date of the Committee's Report, Parliament has made provision for meeting this loss, an issue having been authorized by the Public Buildings Expenses Act,* 1903, *of £80,000 being the estimated amount of the net loss from depreciation of securities after allowing for the gain to the Fund from interest on its investments.*

My Lords take note of the Committee's view that Consols, owing to their liability to fluctuation, are more suitable for permanent than for temporary investments, and that in the investment of a fund such as the one now in question, Treasury Bills should be preferred, or other securities in which the capital of the fund would not be liable to diminution. My Lords readily agree that, when a definite sum of money has been allocated by Parliament for investment for a particular purpose, every care should be taken that the mode of investment shall be such as to give the utmost possible certainty of the money in its entirety being available as and when required. They desire, however, to point out that up to the time at which the investments for the Public Buildings Act Expenses Fund were made, and for many years before, Consols were regarded as an eminently satisfactory security for this purpose. Consols were preferred for such investments precisely on the ground that they could be bought or sold, in any quantity, and at any time, with a minimum risk of variation in the price. The fluctuations which have marked the price of Consols in recent years had not begun to show themselves in the spring of 1899, *nor was it possible then to foresee the rapid fall which was in fact impending.*

It has also to be observed that, under present circumstances, if the investment of a similar fund had to be considered, there would be no difficulty in complying with the view of the Committee that short term securities like Treasury Bills should be chosen. There is now a large amount of Government securities of that class in existence, but the great bulk of them have been created since the period at which the Buildings Fund was invested. At that time there were no securities of the kind except Treasury Bills, and the quantity of those Bills had been reduced to the lowest limit which was deemed compatible with their retention as an effective means of raising money for the Exchequer. There would have been some risk of defeating this object if the Government had taken out of the hands of the public for a series of years a considerable proportion of the limited issue of those Bills.

Revenue Departments.

Vote 3.—Post Office.

Loss by Embezzlement.

8. A case of embezzlement by a 2nd class assistant-superintendent in the Dublin Sorting Office has resulted in the loss of £1,555. The officers immediately responsible for checking the money have been severely punished by degradation to lower positions, but the Controller

of the Sorting Office, with whom it is stated that the pecuniary liability for the whole amount of the deficiency ultimately rested, was fined only £10.

Your Committee are not satisfied from the evidence before them that such a nominal fine was adequate to the occasion, provided the Postmaster-General was convinced that any blame in the matter attached to the Controller.

To the Postmaster-General.

Your Lordship will observe that the Committee are not satisfied that the amount of the fine imposed was adequate, provided the Postmaster-General was convinced that any blame in the matter attached to the Controller.

CONSOLIDATED FUND.

Irregular Issue before passing of Act authorizing Charge.

10. The Comptroller and Auditor General calls attention to a matter of law, in which he found himself at variance with the Treasury and their Counsel. The question was, whether the money raised on the Loan Fund of 1901, amounting to £412,500, to provide for the payment of the first quarterly dividend upon £60,000,000 Consols created under the Loan Act, 1901, was public debt when the Act of Parliament establishing it had not finally passed. The Resolution of the Committee of Ways and Means that the principal and interest of the Loan, above referred to, should be charged on the Consolidated Fund was agreed to on 29 April 1901, but the Act did not receive the Royal Assent till 17 August 1901. The interest was due on 5 July 1901. The Treasury and their Counsel held the opinion that the 60 million Consols were already public debt. The Comptroller and Auditor General permitted the issue of the money from the Exchequer on 4 July 1901, subject to the condition of the opinion of the Law Officers of the Crown being subsequently obtained. That opinion was adverse to the contention of the Treasury, but the Law Officers also stated that, in their opinion, as soon as the Act had passed the matter would be sufficiently covered. Your Committee feel it to be their duty to express their entire concurrence in this important decision, and to express their satisfaction that the Treasury will in future take care that financial bills shall be presented for the Royal Assent at such a date as shall prevent the possibility of any question arising of the propriety of an issue from the Exchequer being made under them.

FIFTH REPORT, 1903. H.C. 305.

Treasury Minute, 24 December 1903.

ANNUAL ACCOUNTS OF THE ORDNANCE FACTORIES.

Superintendence of Factories.

Your Committee have had before them the correspondence between the War Office and the Treasury which arose out of their Sixth Report of last year [*see p.* 449]. That Report dealt with the great waste that had been discovered at the Ordnance Factories, and with the question of the management of those Factories. The Committee observe from

the correspondence that the Chief Superintendent seeks to show, in a long memorandum to the Director-General of Ordnance, that the amount of waste which had actually taken place was not so great as the Report in question would indicate. The Committee had no evidence before them on the subject besides that of the Chief Superintendent, who himself furnished the main facts upon which they formed their opinion. Those facts are not materially affected by the correspondence with the Treasury, and the Committee entirely agree with the view expressed by that Department in their letter of 22 April last, and adhere to their Report of last Session. In the answer of the War Office to that letter reference is made to the large amount of pay necessary to secure the services of thoroughly competent civilian managers.

Your Committee are of opinion that, looking at the vast sums which will assuredly be wasted year after year under incompetent management in an enormous manufacturing business like the Royal Arsenal, it would be true economy to offer salaries to persons placed in control of the several departments commensurate with those given in civil life.

My Lords desire to record . . . that a civilian has recently been appointed by Mr. Secretary Arnold-Foster to be Chief Superintendent, with an increased salary; and that steps are being taken, by the introduction of a new class of " supervisors " with high professional qualifications, to ensure that skilled management of factory operations upon which economy and efficiency alike depend.

FIRST REPORT, 1904. H.C. 152.

Treasury Minute, 30 November 1904.

Navy Appropriation Account.

Deficiencies on Grants met by Savings.

2. Your Committee feel that they must call attention to the constant practice of obtaining Treasury authority for the application of savings under one Vote to meet the deficiency on another and a totally different Service. In the case of Civil Service Votes, this can only be done to the extent of applying the savings under one subhead of a Vote to meet the deficiency under another subhead, and there is nothing unconstitutional in this practice, as the formal Vote of the House of Commons applies only to the total amount of each Estimate, though we are of opinion that even here the Treasury should exercise care that the money is not spent in any way which seriously differs from the details presented to Parliament.

But the case of the Navy and Army Votes is very different. Here the Departments may, with the consent of the Treasury, spend in a manner entirely at variance with the grants as voted by the House of Commons, and they may even start a new Service not contemplated when the Votes were passed. This practice appears to us to be growing, and we think that the attention of the House of Commons should be called to it as seriously affecting the control of Parliament over the public expenditure. . . .

In view of this expression of opinion by the Committee, my Lords think it well to deal with the subject generally.

The following figures of gross expenditure indicate the facts for the last ten years for which audited accounts are available:—

(*A*)—*Transfers between Navy Votes.*

	Total Gross Expenditure.	Excess of Actual Gross Expenditure over Estimated Gross Expenditure.	
1902–3	*32,327,715*	*388,335*	*1·20 per cent.*
1901–2	*32,249,378*	*205,224*	*0·63* ,,
1900–1	*31,169,727*	*288,156*	*0·92* ,,
1899–1900	*26,979,945*	*1,151,719*	*4·26* ,,
1898–9	*24,935,358*	*637,516*	*2·55* ,,
1897–8	*21,837,416*	*595,246*	*2·72* ,,
1896–7	*23,190,957*	*346,604*	*1·49* ,,
1895–6	*20,543,278*	*59,303*	*0·28* ,,
1894–5	*18,571,101*	*402,190*	*2·16* ,,
1893–4	*15,297,425*	*175,749*	*1·14* ,,
1892–3	*15,330,857*	*397,517*	*2·59* ,,

(*B*)—*Transfers between Army Votes.*

	Total Gross Expenditure.	Excess of Actual Gross Expenditure over Estimated Gross Expenditure.	
1902–3	*79,329,275*	*2,235,435*	*2·81 per cent.*
1901–2	*98,654,470*	*4,796,940*	*4·86* ,,
1900–1	*96,242,034*	*5,028,841*	*5·22* ,,
1899–1900	*46,133,657*	*950,385*	*2·05* ,,
1898–9	*23,892,769*	*268,594*	*1·12* ,,
1897–8	*22,652,077*	*151,696*	*0·66* ,,
1896–7	*21,182,324*	*125,621*	*0·59* ,,
1895–6	*21,380,673*	*76,290*	*0·35* ,,
1894–5	*20,598,152*	*51,929*	*0·25* ,,
1893–4	*20,884,902*	*69,426*	*0·33* ,,
1892–3	*20,703,813*	*240,293'*	*1·15* ,,

As a whole, these figures, my Lords submit, do not indicate that growing tendency which the Committee apprehended, although during the late South African War, the War Office percentages have been temporarily increased beyond the smaller proportions which obtained before 1899.

The Treasury powers of temporary virement, *which can only be exercised in conjunction with the spending Department concerned, are derived from the Appropriation Act of each year. The history of those powers is given in the Second Report of the House of Commons Committee appointed in* 1862 *for the examination of the Accounts showing the Appropriation of the Sums granted by Parliament to meet the Public Expenditure* [see p. 9]. *As is pointed out in paragraph* 79 *of the Second Report of the Public Accounts Committee of* 1879 [see p. 89], *the Committee of* 1862, *on a full consideration of the many difficulties attending the question, recommended the practical continuance of the power of transfer, but stipulated that (as is provided by the* 4*th Section of the Annual Appropriation Act) such transfers should be considered as temporary advances requiring the subsequent sanction of Parliament. Such ultimate and final sanction is normally given by Section* 5 *of the Appropriation Act of two years later, after consideration of the matter by the House in Committee.*

The Estimates for Navy and Army Services are given their final form some weeks before the commencement of the financial year to which they

relate; and much of the information upon which they are founded has to be collected considerably before that date. Under such circumstances, the necessity must sometimes arise for incurring expenditure which was not provided for and which it is detrimental to the public service to postpone till provision can be made for it by Parliament in the usual course. It is only in these cases that the Treasury is empowered by the Annual Appropriation Act to authorize such excess expenditure on (e.g.) one Navy Vote being defrayed out of savings on another Navy Vote, without excess on the aggregate of Navy grants for the year. My Lords, like their predecessors of 1879, are deeply sensible of the responsibility which they incur in sanctioning under their annual powers any material departure from the detailed Estimates on the strength of which Parliament has granted public money to a Department; but, while they do not shrink from incurring that responsibility whenever the public interest appears to dictate it, their Lordships have constantly in view the supreme control of Parliament over the public expenditure and have repeatedly withheld their sanction from proposals of public Departments, which seemed to this Board to militate against the principle of Parliamentary control over public expenditure. If, however, Treasury sanction is given, my Lords seek to apprise Parliament at the earliest possible moment of any considerable departure from the original scheme of Navy or Army expenditure; and, in accordance with Mr. Monk's Resolution of 4 June 1879, statements are laid annually before the House of Commons showing, for Navy and for Army respectively, the cases in which the Treasury has sanctioned the application of surpluses on one Vote to meet a deficiency on another Vote within the financial year. In the important case of the Shipbuilding Programme it is the practice to lay separately before Parliament at the earliest opportunity a statement of any considerable change, even though such change involves merely a reallocation of money under a single Navy Vote and not a transfer between Vote and Vote.*

My Lords understand the Committee to suggest not the abolition of the existing system, but its restriction in practice to the limits imposed annually by Parliament. Both the Board of Admiralty and the Army Council will no doubt concur with this Board in desiring to observe these limits as closely as possible.

Remission of Penalties.

5. . . . The Admiralty submit that it is necessary to retain the power of inflicting adequate penalties, but that unless such power is used with great caution, and only in extreme cases, the tenders for contracts will be made at much higher prices, to cover the risk of penalty.

No penalty can, however, be waived without the authority of the Treasury, and your Committee have been informed that that Department have in subsequent cases required the enforcement of penalties which relate to quality and speed.

In connexion with the remission of penalties, it is not the case that "no penalties can be waived without the authority of the Treasury." Such power of waiver is not infrequently vested in the Admiralty by the express terms of the contract; and in such cases (e.g., delay in construction) the Treasury does not intervene. I am to add that my Lords are not aware that any cases exist in which this power is vested in the Board of Admiralty if deficiency of quantity is concerned, i.e., where the full contract price is claimed for an inferior article.

* See copy at p. 221.

NAVAL WORKS ACTS ACCOUNTS.

Estimates.

9. Your Committee examined closely into the question of estimates for work proceeding under these Acts, and whilst they acknowledge the difficulty referred to by the Director of Works of giving an accurate estimate of expenditure on the initial years of a new work, there ought to be no such difficulty in fairly estimating the annual expenditure on works in progress. They are also of opinion that Parliament should not be asked on a token Vote of a few thousand pounds to commit itself to the construction of a new work, of which the total cost may run into millions, and of which not even an approximate estimate is submitted.

My Lords, while entirely agreeing with the principle of the Committee's observation, do not admit that in practice Parliament has been so committed. In connexion, for example, with the "token" provision of £50,000 in the Naval Works Act, 1903, for the Chatham Dockyard Extension, my Lords, in the Treasury letter (10658/04) of 25 June last, stated to the Admiralty that they "do not accept the contention "that Parliament has sanctioned this service in principle further than "to provide the above token sum for preliminary work." And similarly with regard to Rosyth, the Admiralty representative before the Committee stated (Q. 1111) as follows:—"At Rosyth you gave us "authority to undertake works to the extent of £200,000 and no "liability has been incurred beyond the £200,000. We have pledged "ourselves that we shall not incur liability in excess of that, and the "Treasury hold us to that. That is the obligation upon us."*

Policy of Loans.

10. Your Committee entertain serious doubts as to the financial method by which Naval Works are provided for by means of loans. The same remark applies, of course, to Military Works, and other similar Loan Services. For special works of permanent character and large cost, it may, as an exceptional measure, be desirable to provide by loan repayable within a limited number of years. But the resort to such procedure should be the exception, not the rule. In recent years, annual or biennial Military and Naval Works Acts have become a regular part of Military and Naval finance. Your Committee would deprecate the continuance of this practice. They believe that it would be more in accordance with sound rules of finance and would tend to simplify the national accounts and maintain an efficient control over expenditure if the bulk of these services were included as formerly in the annual Estimates.

Without entering here into a discussion of the exceptional works of magnitude and permanence which may be held to justify procedure by loan to the relief of the Votes of a particular year, my Lords think it may be convenient to record the steps that have been taken departmentally towards finality in the matter of both Naval and Military Works Loans. . . . [See also P.A.C. 1. 1905. 29 at p. 470.]

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* See further P.A.C. 4. 1905. 11, at p. 477.

SECOND REPORT, 1904. H.C. 207.

Treasury Minute, 19 December 1904.

CIVIL SERVICES APPROPRIATION ACCOUNTS.

CLASS II., VOTE 27.—SECRETARY FOR SCOTLAND.

Investment of Balances.

6. The balance on the Congested Districts Board (Scotland) Fund is reported by the Comptroller and Auditor General to have risen at the close of this Account to the sum of £86,114 6*s*. 9*d*., on deposit receipt in one of the Scotch Banks. This large sum has been purposely accumulated during recent years, with a view to a considerable purchase of land which the board desired to make. The money was placed from time to time on deposit receipt in one of the Scotch Banks at less than 2 per cent. interest. There appears to be a doubt whether the Board have the power of investing their balance, a question which will be considered by them, and your Committee desire to recommend to the Treasury the advisability of allowing, upon application, these large balances to be invested in Treasury Bills or similar Government Securities.

There does not appear to be any legal obstacle to the investment of the balance of the Fund. But an Office or Department entrusted with the charge of a public fund of this nature, in the absence of an express direction from Parliament for its investment, would be liable to be called to account if any investment were made which resulted in a diminution of the principal of the Fund. The risk of such loss by investments in Treasury Bills or Exchequer Bonds is much less than in the case of investments in securities of a fluctuating nature; but even in the case of Bills and Bonds the possibility of loss cannot be entirely eliminated when it may be necessary at any time, for the purpose of meeting the liabilities of the Fund, to realize the securities, regardless of market conditions, in advance of their maturity.

My Lords understand that the Congested Districts Board would have raised the question of investment if they had been able to foresee that so large a balance would remain for so long on hand. The Board anticipated, however, that the opportunity for a considerable purchase of land might have arisen at an earlier date. The money on deposit between 1900 and 1903 earned rates of interest varying between 1½ and 3½ per cent., the rate for the greater part of the period being 2½ per cent. It does not appear therefore that a substantially better return would have been gained by investment, regard being had to the expenses incidental thereto.

This question of the deposit of public moneys with private Banks is specially a Scottish question. It does not arise in England and Ireland, where similar balances are lodged with the Bank of England and the Bank of Ireland. These Banks do not directly pay interest on the Government moneys in their hands, but the advantage which they derive from the possession of Government moneys is one of the factors taken into account in fixing their remuneration for services rendered to Government.

It was stated before the Committee that the purchases for which the balance of the Congested Districts Board Fund was accumulated had since been effected, and that the large balance would no longer appear. I am to request that you will move the Secretary for Scotland to cause my Lords to be furnished with a return of any other funds under the control of the Departments in Scotland of which the balances are placed

on deposit with the Banks, in order that it may be considered whether in any case investment could with advantage be resorted to. No investment should, however, be made of funds for which no express direction is in force, except after consultation with this Board.

CLASS IV., VOTE 10.—PUBLIC EDUCATION (IRELAND).

Date of Payment of Residual Capitation Grant.

8. Your Committee note that the Treasury admits the force of your Committee's opinion, expressed in last year's Report [4th Report, para. 6], that in accordance with financial rules, the Residual Capitation Grants to the teachers under the Irish Education Act, 1892, should be brought into the expenditure of the financial year within which they are earned, instead of being paid as at present in the first month of the succeeding financial year. But as this change would involve a considerable sum of money, viz., £120,000 in the year in which the change was made, which charge would not recur, and the provision for Public Education, Ireland, would have to be to that extent increased, the Treasury are of opinion that the payment should be provided for by a Supplemental Estimate, when financial circumstances are favourable.

In this your Committee concur.

CLASS V., VOTE 8.—TRANSVAAL AND ORANGE RIVER COLONY.

SOUTH AFRICAN CONSTABULARY.

Conditions attaching to Grant in Aid.

10. . . . With respect to the last Grant of £1,000,000 by Supplementary Estimate of 24 February 1903, a difference of opinion exists between the Treasury and the Comptroller and Auditor General. This Grant was made as described in the Estimate, "to meet the cost of "maintenance of South African Constabulary in excess of 6,000 until "the strength of the force can be reduced to this number."

A foot-note was appended stating that no surrender would be made of any balance unexpended at the close of the financial year. The Treasury hold that this Grant was intended as an absolute gift to the Transvaal to enable them to reduce the South African Constabulary to 6,000 men, and they told the Colonial Office that they would ask Parliament to vote this sum of £1,000,000, and that it would be issued in full without any surrender, the Transvaal getting the benefit if they reduce the force to 6,000 at a less expense. The Secretary of the Treasury is of opinion that this view of the Grant was made clear in the debate upon it. The Comptroller and Auditor General on the other hand maintains that the terms of the Grant were clear and distinct, viz., to meet the cost of maintenance of the force in excess of 6,000 men, and that he had no power to pass expenditure not covered by the precise terms of the Grant.

Your Committee agree with the Comptroller and Auditor General that where the terms of an Estimate are clear and precise he has no right to go beyond them.

It is evident, however, that in Ministerial statements and in correspondence between the Treasury and the Colonial Office, the Transvaal Government were informed that they would not be called upon to surrender any part of this sum even if the force were reduced below 6,000 before the whole of the Grant was expended. Your Committee regret that the form of the Estimate was not made to correspond with

this expressed intention, and that the whole correspondence was not laid before the Comptroller and Auditor General.

With reference to the Committee's observations on the form of the Estimate for the final Grant voted in the spring of 1903, *my Lords recognize that it was through an omission, which they regret, on the part of the Treasury that the Estimate as submitted to Parliament gave no indication of the special condition attaching to that Grant.*

CLASS VII., VOTE 4.—CORONATION OF HIS MAJESTY.

Note of Total Cost.

11. The Treasury handed in a statement from which it appears that the total expenses, collected from various Votes, of the Coronation of His Majesty, amounted to £359,289 5*s.* 1*d.*

Your Committee are of opinion that when the Estimate for £125,000 for the expenses of the Coronation was submitted to Parliament, a note should have been appended explaining that this sum only represented a portion of the cost to be incurred.

My Lords take note of the Committee's opinion, in which they concur, that the Estimate presented for such part of the expenses connected with the Coronation as required special provision should have been accompanied by an explanation that the sum so provided represented only a portion of the cost to be incurred.

THIRD REPORT, 1904. H.C. 288.

Treasury Minute, 30 November 1904.

ARMY APPROPRIATION ACCOUNT.

Decentralisation of Army Corps Accounts.

2. Branches of the Accountant-General's Department were, from 1 April 1902, transferred to the headquarters of the First, Second, and Third Army Corps at Aldershot, Salisbury, and Dublin, in accordance with the recommendations of the Dawkins Committee.* These officers examine locally the accounts of the several commands, record expenditure, and render financial assistance to the military authorities. The paymasters will in future be members of the Finance Department. The accounts will be examined at the headquarters, and not forwarded to London, but the test audit of the Comptroller and Auditor General will be retained. This system is said to be working remarkably well (Q.2852), very few references have been made to Headquarters, and the Comptroller and Auditor General finds the accounts kept as well as before (Q.2848). At the same time the military authorities find great advantage from being in touch with financial experts, and a body of accountants are being trained in peace time, whose absence in South Africa was so sorely felt in the late war. Your Committee reported last year (3rd Report), " That no supply of officers trained in local " audit and in taking supplies on charge exists, and that their absence " has been the main cause of the imperfect control of expenditure in " South Africa."

* *See* paras. 56 to 67 of Report of Committee on War Office Organization. Cd. 580, presented to Parliament in 1901.

The Committee call attention in several paragraphs of the Report to defects in accounting during the recent South African War, which are attributed to the absence of skilled accountants. My Lords, in connexion with the Reports of the Esher Committee, have assented generally to a reorganization of the Army Finance Department on lines which will provide for the further devolution of detail duties from headquarters; and they have now received the establishment scheme which has been framed by the Army Council.*

Adverting to the Treasury Minutes of 1872, 1881, 1882, *and* 1883 *on the Reports from the Public Accounts Committees* [see pp. 29, 131 and 142] *with reference to the duties of Accounting Officers, my Lords think it well to record that such devolution will not affect the personal responsibility of the Director of Army Finance, as Accounting Officer, for the whole expenditure contained in the Army Appropriation Account and certified by him thereon not to have been incurred without authority superior to that of the War Department in cases where such superior authority is required by the regulations. His officers will compose the Army Finance Department; and their power of allowing expenditure from Army moneys will be those delegated to them by him and will not be subject therein to authority other than this.*

Delegation of Financial Control.

3. By another recommendation of the Dawkins Committee,† the Treasury in 1901 empowered the Secretary of State to sanction, without reference to them, expenditure not covered by the regulations up to a total limit of £5,000 a year‡; provided, firstly, that no permanent alteration of existing regulations is involved; secondly, that no recurring charge is involved; thirdly, that the authority is only used for charges recognized by the Secretary of State as fit subjects for military expenditure.§

Two officers, Major-General Sir C. Knox and his A.D.C., Major Marescaux, were appointed to the Fourth Division Second Army Corps in October 1902, but owing to their predecessors not completing their period of command till 31 January 1903, the Field Marshal Commanding Second Army Corps granted leave of absence to Sir C. Knox and Major Marescaux, staff pay and allowances being granted to them from 30 October 1902 till 31 January, 1903. There was, therefore, a double issue of pay and allowances between those dates. The Treasury refused to sanction this, basing their decision upon Article 170 of the Pay Warrant which says that "Staff pay shall only be issued to an "officer in actual discharge of the duties of the appointment."

After some correspondence, in which the Treasury adhered to their decision, the Secretary for War announced his intention of charging the Staff pay of these officers for the period in question against the £5,000 placed at his disposal for expenditure not covered by Regulation.

Your Committee agree with the Comptroller and Auditor General that this was an abnormal and unusual payment and not according to the proviso laid down for the regulation of these payments.

My Lords are glad to learn from your letter (No. 1/G. No. /121) of 20 July last (which dealt with a similar payment from the special

* War Office (Reconstitution) Committee; Reports presented to Parliament in 1904, Cd. 1932, 1968, and 2002.

† Cd. 580, para. 41.

‡ In 1921 the Treasury sanctioned "the doubling of the sums allotted for "this purpose, viz., (*a*) Secretary of State's fund to be £10,000, (*b*) total for "General Officers Commanding to be £13,000" (see Appendix No. 22 to P.A.C. Reports 1921).

§ A similar delegation of financial control was made to the Admiralty in 1904 (see Navy Appropriation Account 1904-5, page 154, Report, para. 28).

£5,000 fund, notwithstanding a refusal of the Treasury to sanction the item separately) that " the discussion on the case of Major-General " Knox before the Public Accounts Committee in June last has, how- " ever, made it clear that it is not to be regarded as permissible under " any circumstances to charge against the special fund any payment " which the Treasury has definitely declined to sanction; and the " Council desire to assure their Lordships that this rule will in future " be strictly observed."

Imperial Military Railways.

Use of Army Balances.

5. These railways—the railways in the Transvaal and the Orange River Colony—were taken over and worked by the military authorities during the war, and for military purposes, and in the first six months of 1902 a sum of (in round figures) £1,250,000 was spent on them. It was believed by the military authorities that this money would be recovered from the Colonies when the railways were handed back at the end of the war.

No Parliamentary sanction was obtained for the spending of the money, and the Treasury had no knowledge of its having been spent till some time afterwards. A portion of this sum, viz., £350,000, had already been made a final charge to Army Votes of previous years. The remainder, £900,000, was carried to a suspense account in the hope that repayment would be made by the Colonies. In March 1904, as no repayment had taken place, provision was made for the money in Army Supplementary Estimates, and the matter then, for the first time, came within the knowledge of the House of Commons.

Your Committee have no reason to believe that the expenditure of the money was other than necessary at the time for the working of the railways, but they desire to express their emphatic disapproval of the fact that the expenditure of this large sum for a purpose which had not been sanctioned by Parliament was not brought to the knowledge of the Treasury at the earliest moment, in order that the sanction and approval of the House of Commons might forthwith be obained for it.

Your Committee have learned with some surprise that it is possible for a Department to spend a sum of upwards of £1,000,000 for purposes for which Parliamentary sanction had not been asked, and that the fact of this expenditure for non-voted purposes having taken place was not immediately brought under their attention by the Comptroller and Auditor General.

A sum of 1¼ millions was expended on Military Account in South Africa on Railways up to 30 June 1902. It is not suggested by the Committee that the expenditure of the money was other than necessary at the time for the working of the railways, and indeed, by a Supplementary Estimate 1903–4, Parliament has consented to authorize it. Objection is taken by the Committee not to the expenditure in itself, but to the fact that it was incurred for a purpose which had not been sanctioned by Parliament. Such sanction was not obtained at once because the War Office thought they would recover the money from the Transvaal; and they consequently placed the expenditure in a suspense account, in accordance with the general practice which prevails when the recovery of the money is expected, while the amount outstanding was shown in the statements appended to the Army Appropriation Accounts both for 1901–2, and 1902–3.

Having regard, however, to the amount involved, my Lords recognize that the proper course would have been to lay the case before Parliament as soon as the facts were ascertained, in order to obtain Parliamentary sanction in Supply to an expenditure which, though incidental to the

war, and necessitated by the circumstances of the time, was of a character so exceptional as not to have been before Parliament when sanctioning the grants from which the expenditure was defrayed. For this omission to present an Estimate before the end of 1903–4, responsibility rests on the Treasury and War Office jointly and regret has already been expressed both in the House of Commons and before the Public Accounts Committee that the omission should have occurred, though it must be remembered that this was the first occasion on which an attempt was made to carry on war on an enormous scale with Estimates submitted in detail to Parliament beforehand, and that had the old system, whereby Votes of Credit were taken, been continued, there would have been no necessity to go to Parliament for specific sanction at all.

With regard to the Committee's remark in their concluding paragraph under the heading of Imperial Military Railways, my Lords desire to point out that, in the case of a service involving large expenditure in all parts of the world, there must necessarily be at all times a considerable amount of cash in the sub-accountants' hands; that this amount obviously had to be largely increased in a state of war, and that it was due to this increase and to the delay in rendering accounts which the war made inevitable, that it was possible so largely to exceed the expenditure authorized by Parliament.

My Lords observe with satisfaction that in the exercise of the responsibility which rests on the Army Council and their Accounting Officer, "special attempts have been made to reduce the amount outstanding on "suspense accounts to the minimum consistent with efficiency, and to "secure that they are not opened for other than clearly Army services."

Cape Government Railways.

Liabilities incurred without Treasury Sanction.

6. The agreements between Colonel Girouard on our part and the Director of Railways on the part of the Cape Government were signed by Sir Redvers Buller, but were never submitted to the Treasury. The outcome of the final arrangement was the charge to Army Votes of £17,000. Your Committee agree with the Treasury, that since a liability was imposed the agreement both with the Cape and Natal should have been submitted to the Treasury.

The Army Council will observe that the Committee hold that, since a liability was imposed by the War Office agreements with the Cape and Natal Railways, such agreements should have been submitted to the Treasury before a settlement was effected.

Sales of Surplus Stores to the Repatriation Department.

17. . . . Your Committee are of opinion that in future officers conducting sales should be instructed to report how the sales were conducted, and whether the best prices obtainable were realized.

In the case of sales of surplus stores, the Army Council will doubtless give practical effect to the recommendation of the Committee . . .

It is essential that evidence should be forthcoming as a matter of course to show, in all cases of such sales, that the most profitable course was taken which circumstances were held to permit and that reasonable grounds existed for accepting a price below the minimum price at which tenders were invited.

FIRST REPORT, 1905. H.C. 176.

Treasury Minute, 30 December 1905.

ARMY APPROPRIATION ACCOUNT.

Grants allotted to General Officers Commanding.

3. Your Committee desire to express their opinion that these grants, not exceeding £500, placed at the disposal of the General Officers Commanding, ought to be applied solely to cover unforeseen charges of an exceptional nature, and ought not to be applied, as it appears they have been, to supplement ordinary Votes, and especially to items provided for in Vote 10 (Works and Buildings).

The Council will note the opinion expressed by the Committee.

VOTE 9.—WARLIKE STORES. SUBHEAD B.—GUNS AND CARRIAGES.

Orders given without Agreement as to Price.

5. Two sums, of £7,360 10*s.* and £5,173 14*s.*, paid to a firm of contractors for the cost of manufacturing experimental 4·5 inch B.L. Howitzer and 5-inch 60-pr. B.L. heavy equipment are included under this Subhead.

These sums represent the amounts accepted by the contractors after the original bills were reduced upon the protest of the War Office, as the actual cost of the equipments, plus 10 per cent. profit. Your Committee are strongly of opinion that these orders ought not to be given by the War Office without reference to the Contract Branch, and that in the case of orders involving considerable sums it would be better to attempt to make some agreement as to price even if the contract were modified. They specially desire to call attention to the fact that although the contractors were asked to state the cost previous to the execution of the orders, they neglected to do so, and the War Office permitted them to execute the orders without insisting on that condition.

The Committee record their strong opinion that "orders ought not "to be given without reference to the Contract Branch, and that in the "case of orders involving considerable sums it would be better to attempt "to make some agreement as to price, even if the contract were "modified." With this view my Lords desire to associate themselves.

GARRISON INSTITUTES.

13. Your Committee note (and they agree with) the decision of the Treasury that money may only be spent out of the Votes or the Military Works Loan, upon buildings designed for the actual benefit of the soldier, where his personal comfort is concerned, and not upon the building or renting of buildings for the benefit of a trading company, or the keeping of stock.

My Lords accordingly request that this rule may be borne in mind in any cases which may arise in the future.

MODIFICATION OF RULES GOVERNING WRITES-OFF.

17. The powers of writing off granted to general officers have been extended from £5 to £20 in the case of cash, and in the case of stores from £50 to £100, with the consent of the local auditor, and the Treasury have approved these extensions.*

* These powers were subsequently further extended, *see* Appendix No. 22 to P.A.C. Reports 1921.

Military Works Acts Accounts.

Purchase of Land.

29. The Comptroller and Auditor General has called the attention of the Committee to a purchase of land . . . The War Office has . . . undertaken to supply further particulars (as is the practice in the Navy) for the information of Parliament in such cases as may in future arise.

The question of furnishing in the annual accounts presented to Parliament further particulars of purchases of property, both under the Military Works Loan and under Vote 10, *has been dealt with in the correspondence ending with the Treasury Letter* (21416/05) *of the 4th instant. Uniformity of practice with the Admiralty will thus be secured on lines which, my Lords conceive, will meet the wishes expressed by the Committee.*

Estimates of Loan Expenditure.

The Comptroller and Auditor General calls attention to the non-compliance (as he deems it) with the terms of Section 1 (2) of the Military Works Act of 1897, incorporated in the Act of 1903, in the issue of moneys under the latter Act. The above section runs as follows:—

> "Before any moneys are issued for the purpose of expenditure under any head in the Schedule to this Act, a Secretary of State shall submit to the Treasury an estimate, with such details as may be required by the Treasury, of the expenditure under that head for which it is for the time being proposed to issue money, and shall therewith state the period within which it is proposed to expend the money so issued." . . . .

Your Committee would point out that the Military Works Act authorizes the expenditure by the War Department of very large sums of money under each of the four heads of the schedule. The only security that Parliament has that expenditure within these heads shall not be at the general discretion of the War Office but shall be limited to certain specific defined works rests upon the above-quoted section of the principal Act. It imposes on the spending department an obligation to present a detailed estimate to the Treasury, and the Treasury are bound to satisfy themselves that these details are sufficient. Without sanction so given no money can be issued under the Act. Your Committee are of opinion that this provision cannot be too strictly adhered to.

My Lords are in full accord with the Committee in the view that, under Section 1 (2) *of the Military Works Act of* 1897 (*which is re-enacted in the* 1903 *Act*) *there is an obligation on the War Office to present a detailed estimate of proposed Loan expenditure, and an obligation on the Treasury to see that these details are sufficient to justify the issue of Loan funds.*

Policy of Loans.

In their Minute of 30 November 1904 the Treasury support the observations made by your Committee last year (First Report, *see* p. 462) on Military and Naval Works Loan Expenditure. Your Committee believe that if the bulk of these works services are placed on the annual Estimates, a sound system of finance will be resumed, the national accounts will be simplified, and a more efficient control over expenditure will be secured.

My Lords are restricting issues for the present to services already in hand, leaving the question of new services over till the new Council have had a sufficient opportunity to communicate their recommendations to this Board.

PARLIAMENTARY CONTROL—ACCOUNTING OFFICERS.

80. The attention of your Committee has been called to certain passages in the special Army Order of 6 January 1905, which have given rise to doubts as to their consistency with the Constitutional Parliamentary control over public expenditure. Your Committee, therefore, deem it their duty to affirm the necessity for maintaining unimpaired the established system of accounting to Parliament for the application of public moneys to the purposes for which they are intended by Parliament to provide; and to declare that neither can the existing system of Parliamentary control be altered, nor the strict responsibility attached by it to the Accounting Officers appointed to carry it out be removed, otherwise than by Parliament itself.

In order to remove all doubt or misunderstanding, your Committee recommend that it be distinctly laid down: (1) that in the case of the Army, as of all other Departments, the duty of accounting for moneys received, expended, or in hand, and the responsibility for them, lies upon the Chief Accounting Officer of the Department; (2) that the authority over and the responsibility for all Sub-Accounting Officers belong to him; (3) that no part of that authority or responsibility can be diverted from him to any other person whatever; and (4) that in all matters of account, and of payment or receipt, whether matters in dispute or not, the Sub-Accounting Officer is authorized and required to communicate directly with the Chief Accounting Officer.

To War Office. From your letter (10/278) *of 26 July last, my Lords are aware that steps have been taken by the Council to issue a revised Army Order defining the duties of the Major-General in charge of Administration and the Chief Accountant of a Command, respectively, in order to remove all doubt or misunderstanding respecting the sole and undivided responsibility of the Accounting Officer for expenditure out of Army Votes and funds. In the several commands, as in all departments at the War Office itself, no payment out of Army moneys should be allowed except by officers of the Accounting Officer, acting under powers delegated to them by him, and subject therein to no authority other than his.*

Copy to Admiralty.

SECOND REPORT, 1905. H.C. 240.

Treasury Minute, 11 December 1905.

CIVIL SERVICES APPROPRIATION ACCOUNTS.

CLASS I., VOTE 7.—REVENUE BUILDINGS—POST OFFICE.

Estimates for New Works.

4. Your Committee desire to call attention to the large sums taken for proposed works, viz., Post Office £120,000 and Telegraphs £65,470, making £185,470, without any separate details of estimated expenditure. This is a much larger expenditure than usual, and is explained by the necessity for making up arrears on the works, which the Postmaster-General stated had been starved during the War. Your Committee are aware that it would be impossible to present even approximately accurate estimates of the numerous small works undertaken by

the Post Office, but inasmuch as Parliament is thus deprived of complete control before the initiation of these works, your Committee are of opinion that the Treasury should only sanction the inclusion in the Estimates of such large sums as these without detail in cases of the most proved and pressing necessity.

My Lords recognize the difficulties which exist in the precise allocation of the provision for proposed new works which may be in contemplation at the time when the estimate is prepared. While it may be a matter of comparative ease to forecast the progress that will be made with works which are already in hand, or for which contracts have been arranged, there is inevitably a greater degree of uncertainty as to the probable progress of works of which even the date of commencement can only be conjectured. Still my Lords consider that, so far as circumstances will permit, information should be given to Parliament, not only of the total estimated cost of each separate work, but also of the amount to be expended on it in the year of Estimate. They trust that in preparing future Estimates the same necessity for departing from this principle may not arise as has arisen in the past few years.

CLASS V., VOTE 1.—DIPLOMATIC AND CONSULAR SERVICES.

Ex-officio Transactions.

8. The Comptroller and Auditor General calls attention to certain accounts of an exceptional character administered by Diplomatic and Consular Officers. These include large sums advanced by H.M. Minister at Pekin from public moneys in his hands, in anticipation of payments from the Chinese indemnity; fines levied on a district for the murder of two missionaries, received by the Consul-General at Hankow; an indemnity paid in respect of illegal likin duties levied upon various traders and paid to the Consul-General at Yunnan-fu; and the balance of certain tonnage duties refunded by the Brazilian Government and held by the Consul at Pernambuco.

These amounts were not included in the accounts of public moneys rendered by the several officers as sub-accountants of the Foreign Office, nor in the cash accounts rendered for audit by the Comptroller and Auditor General.

The representative of the Foreign Office appeared to consider that it was quite sufficient to have a balance certificate from the Consuls, to show that they have the money, but that the sums need not be entered in the Foreign Office accounts, inasmuch as they are sums paid to the Consuls for certain claimants, and not intended to come to the British Government at all.

Your Committee do not agree with this view, and they recommend that all such payments should be entered in the Foreign Office accounts, and rendered to the Comptroller and Auditor General for his review and audit. Thus alone can the total balance due from Consular Officers be ascertained, and your Committee trust that the Treasury will insist in all cases upon the maintenance of this sound financial practice.

The Comptroller and Auditor General in his Report on the Accounts for 1890–91 *recommended that all the transactions of a Consular Officer in his public capacity should be stated in connexion with the quarterly accounts rendered by him. A form of statement was devised for the*

purpose, intended to embrace the accounts in respect of Deposits, Intestate Estates, Funds for the relief of Distressed British Subjects, and other funds in the hands of Consular Officers. The Treasury by letter of 3 February 1893 agreed that an instruction should be issued to Consular Officers to include in their accounts a statement, in the form proposed, of all official moneys passing through their hands, but that relief funds and other charitable funds received by a Consul in his private capacity need not be included. Discussion followed as to the expediency of requiring deposit transactions to be entered in the statement, but shortly afterwards the regulations permitting the acceptance of such deposits were repealed. Finally, in December 1894, the Foreign Office submitted to the Treasury the draft of a circular Instruction to Consular Officers, prescribing a statement in the proposed form as regards receipts and payments on account of the Estates of deceased British subjects, and this was approved.

My Lords understand that statements have since been duly rendered in the prescribed form in the cases for which it was prescribed. If the use of that form were to be extended to the other funds which come into the hands of Consular Officers in their public capacity, the object proposed by the Comptroller and Auditor General in 1892 would be completely attained.

The present recommendation of the Comptroller and Auditor General goes further. He proposes that the transactions in respect of these miscellaneous funds should not only be stated in connexion with the quarterly accounts of all Diplomatic and Consular Officers but should also be incorporated into those accounts with the intention that they shall then be included in the accounts rendered by the Foreign Office, thus exhibiting the total balance for which the Accounting Officer of the Department is responsible.

This proposal carries out a general principle which the Treasury have always desired to enforce. In the Treasury Letter of 7 November 1885, to which the Comptroller and Auditor General has referred, it was stated that " the Accounts rendered for audit by Public Officers " should include all moneys received and paid by them in their official " capacity, and thus exhibit the total balance for which such Officers " remain liable : and their Lordships are not aware of any case which justifies a departure from that principle." The letter had reference to the case of a Department in London which had, unnecessarily, carried certain receipts to a separate account at the Bank of England, thereby excluding them from the Departmental account rendered for audit. It had not, however, been suggested at that date that the accounts rendered by the Foreign Office should embrace all the pecuniary transactions conducted by Diplomatic and Consular Officers in their public capacity.

My Lords do not doubt that the Secretary of State will concur with them in desiring that the accounts rendered by the Sub-Accountants of his Department should exhibit the full balance of the moneys in their official charge. The question is as to the procedure which will be most convenient and effective for this purpose. Care must be taken about attaching responsibility where there is no real power of control; and difficulties of detail may arise in the attempt to embody in a sterling account transactions which are carried out in a different currency subject to varying rates of exchange.

I am to request that my Lords may be informed of the views of the Secretary of State as to the best means of giving effect in this instance to the sound principle advocated by the Comptroller and Auditor General. It may be found desirable that the Officers of the Department should confer with the Treasury Officers of Accounts on the subject.

REVENUE DEPARTMENTS.

Date of Charge.

12. Attention has been drawn by the Comptroller and Auditor General to the payment of £126,000 for Post Office sites in the course of the financial year 1904–5 by cheques bearing dates prior to 31 March 1904, with a view to charging expenses actually falling within the year 1904–5 to the Votes of the preceding year on which there would otherwise have been a considerable surplus.

The Treasury, on being asked whether they approved of this proceeding, replied that, "holding as we do the same view as the Comptroller " and Auditor General as to the proper method of accounting, we should " say that the warrants in these cases should not have been issued " until after 31 March." In this view your Committee entirely concur.

My Lords are aware that in the negotiations for the purchase of sites unforeseen difficulties sometimes arise causing the warrant for payment which has been issued to remain for some time in the hands of the officer entrusted with the purchase. It is clear, however, that such delays should not be allowed to alter the year of charge, and I am to request that the views of the Committee, with which my Lords concur, may be complied with.

Form of Estimates.

13. The Treasury forward to your Committee a letter from the Postmaster-General, urging the adoption of his proposal for the amalgamation of the three Post Office Votes, together with a Memorandum from the Comptroller and Accountant General of the Post Office also urging the advantages of the amalgamation, and the Treasury request your Committee to take the subject into their consideration.*

Your Committee believe that there would be a considerable saving of Parliamentary time, inasmuch as three Estimates have now to be considered by Parliament, although the Services covered by the three Votes are essentially one; and also a saving of Departmental time, since hardly any payment can be made on Common Service account without a consideration of how it will affect both the Post Office and Telegraph Votes. The salaries of 85 per cent. of the staff of 190,000 persons are voted in two portions, viz., in the Post Office and Telegraph Estimates. In all ranks, from highest to lowest, " the personnel " is common to both Services. The cost of conveyance of mails is included partly in the Post Office and partly in the Packet Vote. The cost of sites and rentals of premises are shared between the Post Office and Telegraph Votes, and the whole administration is under the Postmaster-General. The annexed copy of the Estimate in the proposed form* shows that no item at present submitted to the House of Commons is withdrawn from observation, but that the juxtaposition of items, whether of Post Office, Packet, or Telegraph Service, enables them to be readily compared.

Your Committee therefore, recommend the amalgamation of the three Votes.

My Lords approve of the amalgamation of the three Votes for the Post Office, the Post Office Packet Service, and the Post Office Telegraphs as recommended by the Committee, and I am to request that the Estimate may be prepared accordingly for 1906–7.

* *See* Appendix 13 at pages 878-9 of P.A.C. Reports, 1905.

THIRD REPORT, 1905. H.C. 248.

Treasury Minute, 30 December 1905.

STORE ACCOUNTS OF THE ARMY.

Informal Waiver of Contract Conditions.

11. Your Committee entirely agree with the views expressed . . . in the Treasury letter, 8 March 1905 (*see* Appendix No. 16): "My Lords, however, feel it necessary to record their disapproval of "the informal waiver of any part of the terms of a formal contract. "They do not deny that there are cases where it may be proper, and "even necessary, to depart from the customary forms of tender and "contracts, but in such cases the contracts should embody the terms "actually agreed upon, and should not embody stipulations which the "War Office have no intention of enforcing, still less terms and condi- "tions which the agent of the War Office has by antecedent negotia- "tions deprived the War Office of any authority to enforce."

ARMY APPROPRIATION ACCOUNT.

*The Dual System of Contract.**

18. Your Committee briefly examined Lieut.-General Sir Neville Lyttelton and the late Director of Contracts. Sir Neville Lyttelton informed your Committee that "the main reasons for adopting the "system of sales and purchases, known as the dual system, in order to "get rid of the huge accumulations of stores as rapidly as possible, "were: (*a*) The urgent and repeated demands of the railway authorities "for the evacuation of their ground upon which many of our depots "stood. Truckloads of civil supplies were beginning to come in which "could not be unloaded, as there was no place to store their contents, "and the trucks, which were urgently required, were perforce com- "pelled to stand idle in demurrage. (*b*) The necessity for sending "home as many of the Army Service Corps personnel as possible, as "well as of disbanding the numerous native labourers employed in "connexion with these stores. (c) Civil owners were also clamouring "for the evacuation of their premises, or for the rent of them, which "during the war was seldom paid. (*d*) Above all, the heavy losses "incurred through the deterioration of the stuff, much of which had "been standing for months, even years, exposed to sun, rain, white "ants, &c."

This system, which was inaugurated by the Military Authorities, was not brought to the cognizance of the Treasury until recently, and, as its working is now under review by the Royal Commission on War Stores in South Africa, my Lords make no observations on the matter at the present time.†

Financial Adviser and Trained Accountants necessary in the Field.

19. The system of introducing a contractor having been adopted by Lord Kitchener, and followed by Sir Neville Lyttelton, your Committee learnt with some surprise from the then Director of Contracts, Sir A. Major, that he had no representative in South Africa to control the contracts made. . . .

* The "dual system" consisted in the sale to local contractors of the large surplus stocks in South Africa at the close of the war concurrently with the repurchase from them of supplies to meet current requirements for the troops (P.A.C. 1905, Minutes of Evidence, Qs. 7, 3383, &c.). For fuller information see Report of Royal Commission on War Stores in South Africa (Cd. 3127, presented in 1906), particularly paras. 181-7.

† See further P.A.C. 4. 1906. 2 at p. 485.

The General in the field is of necessity constantly absent from Headquarters on military duty in every part of his command, and it is impossible for him to supervise intricate financial transactions, to know the weekly condition of the stores, or adequately to control even the largest contracts.

Your Committee desire emphatically to reiterate their opinion that no General in the field ought to be without a Financial Adviser of high standing. With regard to other transactions alluded to in these Reports, your Committee desire to repeat the opinion they have so often expressed, that a corps of trained accountants should always accompany any military expedition in order that rapid and accurate accounting for every financial operation may be secured, and the losses which any campaign may entail, and this South African War in particular has entailed, upon the public may be minimized.

The arrangements for the new Accounts Branch of the War Office provide for this, but further experience is necessary before any opinion can be formed of their adequacy.

The Army Council will doubtless concur as fully as do their Lordships, who for their part trust that the new Army Accounts Department will prove adequate to secure in practice the important objects which the Committee indicate. In this connexion my Lords desire to draw the attention of the Council to the Treasury Minute of 15 *November* 1902 [see pp. 444–5], *dealing with the* 1902 *Reports from the Committee. In that Minute (and again on* 24 *December* 1903 *in dealing with the Committee's* 1903 *Reports) the late Board of Treasury urged that to the civilian staff, now known as the Army Accounts Department, there should be entrusted not only the cash duties now transferred from the Army Pay Department but also purchases, whether by contract or otherwise. When the further experience to which the Committee refer has been gained by the Council, my Lords reserve to themselves the right to invite a reconsideration of the subject with a view to deciding whether the contracts for purchases, as opposed to specifications and inspection of deliveries, should not be placed in the hands of the Army Accounts Department, which would then form the consolidated business department of the War Office.*

FOURTH REPORT, 1905. H.C. 260.

Treasury Minute, 30 December 1905.

Navy Appropriation Account.

Vote 8, III.—Shipbuilding; Contract Work.

Repairing Ships in Private Yards.

3. Notice was taken in your Committee's First Report of last year (para. 3.) of the policy of making increased use of private shipbuilding yards for effecting repairs, owing to the congestion of Government Dockyards. This policy is found to be more costly, and has occasioned various excesses on this Vote. It is now intended to discontinue it, and to do all repairs in the Dockyards.

As the Committee observe, the congestion of Government Dockyards led to the costly experiment of repairing ships at private yards. The present policy is to do all repairs in the Government Dockyards, a policy which is facilitated by the extensive removal of obsolete ships from the effective list.

Payment to Contractors in anticipation of the Signing of a Contract.

6. The Comptroller and Auditor General calls attention to the fact that certain payments were made to contractors in anticipation of the signing of contracts, and that these payments during the years 1902–3 and 1903–4 amounted to about £89,000 and £494,000 respectively. The reasons for doing this were the difficulties in settling the form of contracts, and arriving at a specification which could be agreed upon by both parties, and by the Law Officers. The form of contract has now been settled, and your Committee are glad to learn that this very irregular practice will be discontinued in the future.

*My Lords share the satisfaction of the Committee that in future payments will not be made to contractors in advance of a binding settlement of the contractual terms and conditions.**

STORE ACCOUNTS OF THE NAVY.

Attempted Salvage of Natal Government Floating Dock.

9. In this case coal, wire hawser, and other stores were expended by H.M.S. " Monarch " in the unsuccessful endeavour to save this floating dock, which was stranded in Mossel Bay on the South Coast of Africa. No claim has been made upon the Salvage Association of London, who urgently asked for the assistance of the " Monarch " on behalf of the underwriters, because in Counsel's opinion no claim can be sustained even against a salvage association unless the attempt to salve is successful. If, however, it had been successful, a claim for the loss of stores would have been made.

NAVAL WORKS ACTS.

Liabilities incurred in Excess of Estimate approved by Parliament.

11. A question has arisen upon the Admiralty entering upon a contract by which the sum of £50,000 voted for Chatham Dockyard Extension would be exceeded to the amount of £20,000.† It was entered into by the Director of Works without referring to the Accountant-General, and approved by the Admiralty, without the sanction of the Treasury. The Admiralty had told Parliament that a total sum of four and a half millions would be required for this work and had placed plans in the House of Commons. Under these circumstances they did not deem it necessary to go to the Treasury before extending their liability.

Your Committee are of opinion that the Admiralty were mistaken, and that they had no power to exceed the £50,000 mentioned as the token sum. The Treasury and the Comptroller and Auditor General concur in the view.

As regards the excess expenditure of £20,000 on the " token " provision of £50,000 for the Chatham Dockyard Extension in the Naval Works Loan, my Lords are aware that Parliament has now, by the Naval Works Act of 1905, increased the provision to £70,000 as a total estimate, the larger scheme of 1903 having been abandoned.

FIRST REPORT, 1906. H.C. 182.

Treasury Minute, 15 December 1906.

NAVY APPROPRIATION ACCOUNT.

VOTE 2.—VICTUALLING, &c.

Purchase of Stores.

As regards the cost of Victualling Stores generally, I am to take this opportunity of inquiring whether tenders are in any cases restricted to British or Colonial produce. The Board of Admiralty will be aware that, in connexion with Army supplies, the Secretary of State for War

* See P.A.C. 2. 1925. 37-9 at p. 690.
† See also P.A.C. 1. 1904. 9 at p. 462.

stated in the House of Commons on the 15th ultimo that restrictions of a preferential or protective character have been or are being removed from the War Department contracts, in accordance with the Free Trade policy of the Government.

VOTE 5.—EDUCATIONAL SERVICES.

Dockyard Schools.

5. The provision of £3,722 for these schools suggested inquiry as to the continued necessity for these payments.

The Director of Naval Education was examined, and he showed that these are special schools for boys apprenticed in the Dockyards, and that the work is so arranged as to go hand in hand with what the pupils learn at the ship's side or at their tools. Most of the principal Technical and Constructive Officers in the Dockyards have passed through these schools, and the advantage of this training is so well understood that some of the large private yards have their own schools of similar character.

VOTE 8, II.—SHIPBUILDING; MATÉRIEL.

Sale of Ships.

6 . . . The receipts on account of one ship sold, the " Ajax," are not final. In this case an experiment is being tried; the ship, instead of being sold, is handed over to a firm of shipbreakers to be broken up under Admiralty supervision and inspection. The sums obtained by sale of the material are paid to the Admiralty after a certain percentage has been deducted for the firm. The " Ajax " has by this means realized rather more than the £10,000 estimated, but it is too soon to say whether an equally satisfactory result would have been obtained if all the ships had been so dealt with, and doubt was expressed on this point. Your Committee note with satisfaction that the Admiralty now make it their policy to sell or break up at once every ship that has ceased to be efficient according to modern ideas. By this means considerable savings can be effected, loss by deterioration, and charges for maintenance and shipkeepers being avoided, while the harbours are cleared for the reception of effective ships.

VOTE 8, III.—SHIPBUILDING; CONTRACT WORK.

Contractors' Charges for " Extras " in Certain Ships.

8. Attention was called in the Report of the Comptroller and Auditor General to the heavy charge for " extras " on the hulls and machinery of certain ships in course of construction. These charges, in the case of three battleships and five cruisers, amounted to a total of £644,873, and are the consequence of changes of Admiralty policy after the contracts had been made. It appeared on investigation that about £240,000 of this amount could be described as " extras " only in a bookkeeping sense, for this sum represented the increased payment made for completing in private yards ships that were to have been finished in the dockyards.

By the desire of the Committee a return was supplied showing in detail the distribution of all the charges for " extras." From this it appeared that the other principal sources of this large expenditure were rearrangement of armament on certain ships, and the additional gun-mountings and armour necessary to carry this rearrangement into effect. These changes were made in the light of knowledge gained after the contracts were made, and though in ordinary circumstances it is desirable that full knowledge should precede the execution of the work, it will be remembered that about this time the Naval War in the East was supplying practical object lessons on questions of armament which had been hitherto lacking.

The Lords Commissioners of the Admiralty will note the Committee's observations with regard to "extras" on the hulls and machinery of ships. My Lords need not perhaps impress upon the Board of Admiralty the desirability of restricting, as far as the interests of the public service will admit, such departures from the original contract. If departures are admitted, contract penalties cannot readily be enforced; and the advantages of competitive tender are lost, in the case of the services classed as "extras," by the general necessity of accepting the contractor's own terms for the uncovenanted work.

VOTE 10.—WORKS, BUILDINGS, &C., AT HOME AND ABROAD.

Buildings undertaken without Parliamentary Sanction.

9. Among the lists of services not provided for by Parliament, but begun with Treasury sanction, will be found an item on which expenditure amounting to £3,899 was incurred in 1904–5 on account of a total anticipated expenditure of £35,000 for the erection of quarters for sub-lieutenants under instruction at Whale Island. This transaction presents features which your Committee regard with great disfavour.

First, on the plea of urgency, Parliament is committed to an expenditure of £35,000, for which no provision was made in the Estimates for the year. . . . This expenditure was necessitated, as in many other cases, by "a change of policy."

It was stated that the whole conditions of the entry and training of officers of the Navy were undecided for some time, and then a change in policy with respect to this matter was made. Your Committee cannot accept this explanation as satisfactory, and consider that the scheme should have been worked out and the decision arrived at in such time that the results might have been embodied in the Estimates for the year, or failing that, should have been brought before Parliament by Supplementary Estimate or otherwise. The scrutiny of expenditure by subordinate officers, the criticism of errors of estimate, and, in short, the work of your Committee, will be to a large extent useless, if by the excuse of "a change of policy" any Department can shake itself clear of Parliamentary control.*

If by "the Estimates for the year" my Lords may understand the Committee to mean the next original Navy Estimates (viz. those of 1905–6), it may be urged that, in order to get the quarters built in time for occupation by the end of August 1905, it was deemed essential to place the contract before the end of the preceding January. Accordingly, if the work was not to be postponed, the choice lay between a Supplementary Estimate in February 1905, and the submission to Parliament of an explanatory statement; but it is important to note that in either case the contract would already have been made and the liability incurred before Parliament could have been apprised of the steps taken.

As there were sufficient funds on Navy Vote 10 for 1904–5 to meet the charge (£3,899) accruing for payment in that year, a supplementary grant thereunder was not needed. Regard being had, however, to the magnitude (£35,000) of the total estimate for the new building work in question, my Lords agree with the Committee that earlier steps might well have been taken to inform Parliament of what was being done, and this they think could have been done by presenting to Parliament an explanatory statement, on the principle whereby a revised Ship-building Programme is laid before Parliament whenever any considerable changes are introduced in the course of the year, and on analogy with Mr. Monk's Resolution of 4 March 1879 (35 Public Accounts†) with reference to transfers between Votes.

* See further P.A.C. 4. 1909. 5 at p. 516. † See p. 224.

Proportion of Cost of Staff to Works.

10. The expenditure under Vote 10 was, in round figures, £1,600,000. If from this amount £634,000, which represents repayment of advances under Naval Works Loan Acts, and £5,000 redemption of rent-charge on branch railways into the dockyards, be deducted, £961,000 remains as the actual cost of works under this Vote.

Subhead A shows that £56,000 was the cost of staff in connexion with these works.

Establishment charges thus amounted to nearly 6 per cent. of the outlay.

It appeared to your Committee that this percentage was higher than that usually allowed by private firms, and needed investigation. The Director of Works justified the charge on the following grounds:—

(i) That at many stations the same officers are carrying on works under Vote 10 and, at the same time, works under the Loan Acts, but their salaries and expenses are wholly charged to Vote 10.

(ii) That many designs for large works projected but never carried out, have to be prepared by his officers, and nothing is charged against the Vote for such plans, though in the case of a private firm a payment generally of 2 per cent. would have to be made to the engineer.

(iii) That the charge includes a variety of miscellaneous services, such as superintendence of gas and water works, Coast Guard stations throughout the United Kingdom and in Ireland, and Royal Naval Reserve batteries. There is, further, work in connexion with Bills in Parliament, Orders under the Light Railway Acts, and the preparation of accounts and returns for Parliament.

While admitting the force of these arguments, your Committee express the hope that the attention of the Board of Admiralty will be given to the matter with a view to the possible reduction of the charge in future.

My Lords assume that the attention of the Board of Admiralty is being given to the question raised by the Committee with regard to the possible reduction of the high percentage which Admiralty establishment charges bear to works.

VOTE 11.—MISCELLANEOUS EFFECTIVE SERVICES.

Gratuities for Special Services.

11. . . . Under Subhead J (Gratuities for Special Services) the deficit is principally caused by an award of £8,000 to Admiral Sir Percy Scott. As to the amount of this award no question arises; it was given on the recommendation of the Ordnance Council in full discharge of all claims for several inventions which were considered of great value to the Service, but it is contrary to the established practice that a sum of this magnitude should be paid without being included in the Estimates, and to this point your Committee directed their attention. . . . The departure from the usual practice seems in this case to have been the result of a departmental misunderstanding, and, as the reward was quite in order, your Committee mention this matter only to draw attention to the principle from which there was in this case a deviation.

In the case of all considerable grants to public servants for inventions, &c., the normal rule is not to pay in anticipation of the grant by Parliament.

NAVAL WORKS ACTS ACCOUNTS.

CHATHAM DOCK. COMPENSATION TO CONTRACTORS.

Director of Works as Arbitrator.

13. Included in the charge against " Chatham Dock " is a sum of £13,000, compensation, paid to the contractors for the execution of this work, under an award of the Director of Works, acting as arbitrator under Clause 8 of the contract.

Owing to an irruption of water, or " blow " from the adjoining basin, into the excavations made for the new dock, the contractors were hindered and put to extra expense in carrying out their contract.

The Comptroller and Auditor General calls attention to this matter on the ground that this compensation was paid without legal advice, and without Treasury approval. Your Committee, therefore, took evidence as to the circumstances referred to, and considered it at some length. The first point which calls for notice is the anomalous position of the Director of Works who, though responsible for the conditions of the contract, is to act as sole arbitrator should those conditions become the subject of dispute. He stated that this arrangement is quite common among railway companies and other private corporations, but admitted that the position was a difficult one, and that, in his opinion, the balance of advantage was only slightly in favour of its retention. The next points to be considered are whether the Director of Works should have sought legal advice before making his award, and the approval of the Treasury when he had done so. Both these questions seem to be merged in the more important one just dealt with, for if the Director of Works is to be the arbitrator, the arbitration clause (No. 8) of the contract is so widely drawn that it is absolutely in his discretion whether he takes legal advice, and he has " all the powers conferred " on an arbitrator by the Arbitration Act, 1889," without any reference to the Treasury. It may be added that this Clause has long been customary in all similar contracts. Your Committee note that the question is receiving the consideration of the Board of Admiralty.

*My Lords will be glad to learn the view taken by the Board of Admiralty with regard to continuing the existing practice whereunder the Director of Works, who is responsible for the conditions of Works contracts, acts as arbitrator if those conditions become the subject of dispute.**

DOCKYARD EXPENSE ACCOUNTS.

Introduction of the Premium System of Payment of Wages.

14. During the year 1904–5, a new system of payment of wages for certain classes of machine work has been in force in some of the factories and shops in His Majesty's Dockyards. This system, which is quite distinct from ordinary piece-work, is known as the " Premium System."†

Its effect, as regards the individual worker, is that he is thereby enabled to obtain a money reward proportionate to the amount of time which he is able to save out of a given standard time, while as regards the employer, besides a proportion of the saving on the standard time which accrues to him, the system operates to reduce the cost of output by increasing the quantity of work from the motive power, machinery, tools, and plant.

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* See further, P.A.C. 3. 1908. 13 at p. 505.

† See description of the system in Appendix 10 to the Committee's Reports, H.C. 192, 296, 348, and 352, 1906, p. 412.

SECOND REPORT, 1906. H.C. 296.

Treasury Minute, 21 December 1906.

CIVIL SERVICES APPROPRIATION ACCOUNTS.

CLASS IV., VOTE 8.—PUBLIC EDUCATION, SCOTLAND.

General Aid Grant carried to a Suspense Account.

13. The Comptroller and Auditor General calls attention to the fact that in this account the whole of the General Aid Grant, £219,040, is shown as expended, whereas only £107,509 7*s.* was really spent, the balance of £111,530 13*s.* being held up in a suspense account to be distributed according to the provisions of further minutes of the Department to be by them laid before Parliament. This course was adopted with the sanction of the Treasury, but your Committee desire to record their disapproval of the proceeding. This Aid Grant is voted by Parliament for certain approved purposes. If the funds voted are unnecessarily large, the surplus should be surrendered and the amount of the grant amended in the Estimates of the following year. The suggestion that the money may be saved and spent afterwards upon services which have not received the sanction of Parliament is quite inadmissible, and the subsequent " laying " of the Minutes is of little use when the money is gone. Your Committee agree with the Comptroller and Auditor General in refusing to admit the amount in question as a proper charge against the Vote. The £111,530 13*s.* has since been surrendered.

The balance in question has been surrendered, and the grant for 1906–7 *includes a re-vote of* £100,000 *under the arrangement made when the Estimate for that year was under consideration.*

CLASS V., VOTE 1.—DIPLOMATIC AND CONSULAR SERVICES.

Credits from Bankrupt Estates, &c.

15. The Comptroller and Auditor General has raised the question whether these credits can be properly treated as Appropriations in Aid. Your Committee are of opinion that they should be treated as Extra Receipts.

Under the decision conveyed to you by their Lordships' letter of 14 *June last* (10677/06), *it was settled that all balances of bankrupts' estates unclaimed for fifteen years should be paid into the Exchequer, that unclaimed balances of estates of deceased British subjects received by Diplomatic and Consular Officers should be transferred to the Treasury deposit account, and that as regards other deposits and balances at Consular, &c., establishments no new arrangements appeared to be required.*

VOTE 2.—UGANDA AND EAST AFRICA PROTECTORATE.

Amalgamation of Colonial Audit Branch with Exchequer and Audit Department.

17. The Comptroller and Auditor General states that the accounts of these Protectorates have been examined by his Colonial Audit Branch, and calls attention to the rather anomalous position in which he stands in this matter. The audit of the Protectorate Accounts was undertaken by the Comptroller and Auditor General 15 years ago at the request of the Colonial Office. At the present time he audits the accounts of 17 Colonies and Protectorates. The Treasury till recently have held that the examination of Colonial Accounts was not part of the work of the regular officers of the Audit Office, so that a special staff, whose salaries are paid by the Colonies and not by any Vote of Parliament, is engaged

by the Comptroller and Auditor General for this purpose, and though he includes a report upon these accounts in his statutory reports to Parliament, he has not examined them in his statutory capacity.

To do away with this anomaly proposals have been laid before the Treasury to amalgamate the Colonial Audit Branch with the Audit Office; the staff of that office will be extended and their salaries met by Appropriations in Aid, which will be raised by the different Colonies. Subject to the financial arrangements being agreed between the parties, the Treasury approve the proposal; your Committee when examining the accounts of Northern Nigeria found the practical inconvenience of the present system, and recommend that the change be carried into effect.*

THIRD REPORT, 1906. H.C. 343.

Treasury Minute, 15 December 1906.

ARMY APPROPRIATION ACCOUNT.

MODIFICATION OF SYSTEM OF AUDIT OF ARMY ACCOUNTS.

10. With a view to greater efficiency, the Comptroller and Auditor General has suggested, and the Treasury have agreed to, certain changes in the method of audit. Under the old system all Votes were scrutinized, but only two or three were examined in complete detail every year. The system now adopted passes by with a simple scrutiny certain charges against the Votes which are of a more routine character, and leaves the officers of the Audit Department free to scrutinize with closer attention points that seem to need examination. Your Committee think it probable that the proposed change may conduce to efficiency, and are satisfied that the control of the Comptroller and Auditor General is in no way diminished. . . .

VOTE 6 (SUBHEAD D).—PURCHASE OF REMOUNTS.

Remount Farms.

14. The Comptroller and Auditor General reports that certain sums realized by sales at the remount farms at Lusk, Melton Mowbray, and Arborfield Cross were deducted from the total expenditure instead of being shown as Appropriations in Aid. Your Committee therefore made some investigation into the working of these farms. This inquiry showed that the maintenance of such farms for remount depots is advisable, inasmuch as many horses can thereby be retained for the service which would otherwise have to be sold at a loss, but no proper balance sheet is kept by which the real value of the farms can be seen. The War Office undertakes that from next year a regular profit and loss account from at least one of the farms shall be worked out, and your Committee recommend that this course shall be pursued at all the farms.

The Council will take note of the Committee's recommendation.

MILITARY WORKS ACTS ACCOUNTS.

Competitive Tenders for Contracts not obtained.

19. In the Southern District, at Bulford, the Army Council carried out certain considerable works without offering the contracts for competition and without consulting the Treasury upon this unusual procedure.

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* The amalgamation was carried out in 1907, but there has since been a re-separation in consequence of the formation of a separate department for the audit of Colonial accounts under the control of the Colonial Office; see P.A.C. 8. 1910, 20-1 at p. 529.

This occurred first in the erection of certain hut barracks, and secondly in the case of some accommodation for the Mounted Infantry. In the case of the huts, the General Officer Commanding placed before the Army Council the following reasons for the adoption of the course proposed:—"The reasons are that we have an existing contract with "Messrs. Playfair and Toole; that this is coming to an end, and they "therefore have staff and plant they can at once turn to account; that "we can give them an order under this contract without the delay "of printing fresh bills of quantities, specifications, &c., and issuing "forms of tender to all the firms on the approved list; that we can "give the orders piecemeal as we settle the details for each class of hut; "that we can, for instance, order the married quarters at once, while "we are considering and discussing the arrangements for officers' mess." As the addition to the contract already given was only about 11 per cent., your Committee, if the Treasury consent had been obtained, might have allowed this matter to pass. The case of the Mounted Infantry buildings is more serious, the original contract was for £28,150 and the new contract was for £42,000. The reasons advanced by the General, which had weight before, cannot be considered adequate when the new work, instead of being an addition of 11 per cent. to the original contract, is no less than 150 per cent. Here a contractor, by taking a small contract, gets upon the ground, and then, to the exclusion of every other firm, he tenders first for a smaller work and then for a much larger one. These contracts were authorized by the Secretary of State, who considered that the urgent needs of the service outweighed the admitted financial objection. Your Committee cannot accept this view, and must record their opinion that if the need was very urgent it could have been so strongly placed before the Treasury that the approval of that Department could have been secured. It is possible that this was a service which would have been unduly delayed had it waited for the direct sanction of Parliament by inclusion in the Schedule of the Military Works Loans Bill for the ensuing year, but Parliament having provided this special machinery of Treasury sanction to meet such cases of urgency, any departure from the authorized practice is open to the severest criticism.

The Committee animadvert on the irregular action taken as "open to the severest criticism." While assuming that no such action will be taken in future by the Army Council, my Lords point out the personal responsibility of the Accounting Officer to safeguard financial order in such cases.

FOURTH REPORT, 1906. H.C. 352.

Treasury Minute, 15 December 1906.

SOUTH AFRICAN STORES: REPORT OF ROYAL COMMISSION.

*Dual System of Sales and Purchases.**

1. Your Committee have considered a further Report of the Comptroller and Auditor General (Appendix No. 19) upon points arising out of the Army Appropriation Accounts of 1904–5 and 1903–4.

Your Committee decided to reserve consideration of certain transactions relating to South African Stores (which were brought to the notice of Parliament by the Comptroller and Auditor General in reporting

* See also P.A.C. 8. 1905. 18 at p. 475.

upon those accounts), pending the publication of the Report of the Royal Commission appointed to " investigate and report upon " the transactions in question.

2. The report of the Royal Commission,* which has now been issued, deals with questions in which not only matters of finance, but also matters of discipline, or of administration, are largely involved. Among the most serious are the questions of the working of the system under which surplus supplies were disposed of, and the so-called " dual system."† . . . These and other incidents of administration are, in the opinion of the Royal Commission, with which your Committee concur, responsible for an enormous waste of public money; but the waste can only in a few cases be reduced to a definite statement of pecuniary loss or responsibility.

Disciplinary action has already been taken by the War Office, and reforms of the Supply and Accounts systems are being considered. . . .

FIRST REPORT, 1907. H.C. 205.

Treasury Minute, 31 December 1907.

NAVY APPROPRIATION ACCOUNT.

APPROPRIATIONS IN AID.

Use of Surplus Receipts in making good Deficiencies on other Votes, and in reduction of Exchequer Issues.

2. The Comptroller and Auditor General has drawn attention to the fact that, when the Treasury have given their sanction " under the " powers conferred by Section 5 of the Appropriation Act 1905," to deficits on certain Votes being defrayed from surpluses on others, the figures thus dealt with have been *net* amounts under each Vote after setting off against the expenditure, not only the receipts authorized by Parliament for Appropriations in Aid, but also receipts realized in excess of such authorized Appropriations.

Although it was admitted in a Treasury Minute of 15 December 1894 (*see p.* 334), that " some consequential amendment may have to " be made in the wording of Sections 4 and 5 of the Appropriation Act " in order that there may be no conflict of wording in the Act, nor any " interference with the present practice in regard to excesses of Appro- " priations in Aid," no such amendment has yet been made.

Your Committee after thorough investigation have agreed that certain changes are necessary in order to legalize the existing practice.

They desire, however, to point out that the total expenditure authorized by Parliament on Army and Navy Votes has in no case been exceeded by the employment of actual receipts in excess of those voted by Parliament. The use made of such excess receipts by the Treasury has been in reduction of Exchequer Issues, and no loss has accrued to the Exchequer by reason of the existing practice.

They desire to express their appreciation of the action of the Chancellor of the Exchequer in submitting draft amendments to their consideration, and recommend their adoption by the House of Commons. They also recommend the adoption of the revised forms of Resolution in Navy and Army Expenditure Committee.

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* On War Stores in South Africa, Cd. 3127, 1906.
† Cd. 3127, para. 188.

The amended Clauses recommended by the Committee were adopted for sections 4 and 5 of the Appropriation Act, 1907. And the Resolutions relating to Navy and Army Expenditure, 1905–6, were also submitted to, and adopted by, the House of Commons in the revised form which the Committee recommended.

The effect of the alterations thus introduced into the form of the Appropriation Act is that statutory sanction is now expressly given to the practice which has long been in force, namely, that in the case of the Votes for Naval and Military services respectively, a surplus of Appropriations in Aid of one Vote may be applied temporarily, with Treasury sanction, towards making good a deficiency of Appropriations in Aid of another Vote in the same Department, just as, under previous Appropriation Acts, power has been given to meet temporarily, where necessary, an excess of expenditure on one Vote out of a saving of expenditure on another Vote in the same department. In both cases the same conditions are applied: (1) *that the aggregate expenditure on Naval and Military Services must not exceed the amounts authorized by Parliament for these services respectively, and* (2) *that every exercise by the Treasury of its temporary power shall be submitted for the sanction of Parliament.*

My Lords desire to record their opinion that the exhaustive examination into this question by the Committee has been useful in dispelling apprehensions as to the possible weakening of Parliamentary control by the system of Appropriations in Aid, as well as in securing a desirable amendment of the law.

VOTE 2.—VICTUALLING AND CLOTHING.

Split Contract for Lettered Hat Ribbons.

4. The Comptroller and Auditor General has drawn attention to the contract for the supply of lettered hat ribbons. This contract had been continued with the same firm from 1890 to 1904. In 1905 the Admiralty invited fresh tenders, when the holder of the contract reduced his price, but still lower prices were quoted by other firms. In spite of this a contract for two-thirds of the supply was given to the original firm. A considerable saving would have resulted from the acceptance of the lower contract, and your Committee inquired the reason for the unusual procedure. They were informed that all standing contracts are reviewed every year, and as often as it is thought necessary fresh tenders are invited, and that in 1905 the Admiralty would have given the contract to the lowest tender had they been able to rely upon the firms to supply the quantities required, but the manufacture of such ribbons is confined to a special branch of the trade, and in view of the large quantity required, amounting to 6,000 a week, it was thought wiser to leave the bulk of the order in experienced hands till the new firms had proved their capability. This appears to have been a proper course to take, as of the two new firms brought in " one has not turned out satis- " factory at all, and the other was not satisfactory at first," but the latter firm now receives about two-thirds of the orders, which is all they are able to supply.

Payment of Commissions to Stewards by Certain Contractors.

5. A case of payment of secret commission to certain stewards in one of the Naval Depots accidentally brought to light grave irregularities, which were very properly made the subject of severe disciplinary measures, upon which your Committee offer no criticism, but they recommend that by the display of notices or other means more care shall be taken to impress upon all employees of the Admiralty, as well as upon contractors, the illegality and danger of accepting or offering any kind of commission. . . .

The Lords Commissioners of the Admiralty will note the Committee's observations with regard to the warning of employees against the acceptance of commissions, and will, no doubt, take such action in the matter as may be necessary.

VOTE 4.—MARTIAL LAW.

Naval Prisons abroad.

6. In their First Report for 1906 your Committee called attention to the heavy cost of Naval Prisons abroad, and inquired whether some reduction could not be effected. The Board of Admiralty, recognizing that these small prisons are always relatively costly to maintain, have considered the question of their abolition, but " are only confirmed in " their opinion that such a course is not feasible in the interest of the " Service." They will, however, do all in their power to reduce expenditure on such prisons wherever practicable.

VOTE 8, III.—CONTRACT WORK.

Contracts without Competitive Tenders.

10. An unusual procedure was followed in connexion with the contracts for H.M.S. " Invincible," " Inflexible," and " Indomitable," for which (without Treasury sanction) no competitive tenders were invited. In explanation it was stated that the Board of Admiralty particularly desired to keep the designs of this class of vessel secret as long as possible. They therefore invited only three firms of proved merit to tender. The Admiralty compared the tenders with the estimates which they had themselves prepared, and finding them to be " practically identical " they accepted them. Your Committee give due weight to the importance of keeping the design of these vessels as secret as possible; but they desire to point out that when any such departure from the usual practice is proposed the sanction of the Treasury should at once be sought. If the arguments urged in favour of the proceeding are not good enough to influence the Treasury at the time, they can be of little value when offered as excuses after the event.

*My Lords share the view of the Committee, and refer to their remarks on this subject under paragraph 14 below.**

VOTE 10.—WORKS, BUILDINGS, &C.

Treasury Sanction for Works unauthorized by Parliament.

12. The Comptroller and Auditor General, after drawing attention to various noticeable variations between grant and expenditure on this Vote, notes " items begun without previous Parliamentary sanction, " but with Treasury authority," to the amount of £24,250. Your Committee made inquiry as to the details of this expenditure, but prefer to deal with the wider question as to how far the necessity of this application to the Treasury operates as a check upon the spending Department. In this connexion a letter was read which very clearly states the position. On 6 January 1906, in response to an application by the Admiralty for a Supplementary Estimate, the Treasury replied as follows: " The exercise of the temporary powers of the Treasury is " scrutinized with increasing vigilance by the House of Commons, and " my Lords have intimated both to the Admiralty and the War Office " that in future years there should be a close adherence to the estimated " application of Navy and Army Votes, the use of the Treasury's " temporary powers to be reserved for the cases of real exigency con- " templated by the Statute. In view of the statement in your letter

* Page 489, and see also P.A.C. 4. 1909. 1 at p. 514.

" that it would be ' detrimental to the Public Service ' if the expendi-
" ture in question were postponed ' until provision can be made by
" Parliament in the usual course,' my Lords feel bound to assume
" that such a case has now arisen, and they accordingly give the
" required authority."*

From this letter it might appear that this is only the shadow of control, and that in reality the Treasury must give way whenever the Admiralty say some work is necessary. Your Committee, however, do not incline to this view, and they are satisfied that the check is operative. The Treasury, before assuming a responsibility for which they might have to give account in Parliament, demand that the spending Department shall make their case good on paper, and this exposes the (proposed) scheme to criticism at every stage, thus strengthening the hands of the financial authorities in the Department concerned.

In taking note of this expression of opinion, my Lords desire to add that they rely on full and careful inquiry being made by the Department in every case before their sanction for expenditure of this nature is sought, with a view to determining whether the work cannot be deferred without detriment to the public service until provision for it can be made by Parliament in the usual course.

Accommodation on Shore for Boys' Training Establishment.

Extension of Contract without Competitive Tenders.

14. The buildings erected at Shotley for this purpose call for notice under two aspects; . . . secondly, because work was given to a contractor which had not been offered for competitive tender. . . .

It seems proper to state at once that the strong remarks upon a similar transaction which appeared in the Third Report of your Committee last year [*see pp.* 483–4] were not before the Board when this contract was made, and that had that expression of opinion been extant, application would certainly have been made to the Treasury to sanction this departure from practice. But apart from this, it was argued that there always are, and must be, exceptional cases where an absolute adherence to the rule of competitive tender would be unbusinesslike and not economical, and that this was a case in point.

The contractor referred to had already carried out work on the site to the value of £90,000. His contract was much cheaper than any other, and the work cost more than he expected, but when the size of the establishment was altered as already noticed, he undertook to carry out the rest of the work at the same rates with the addition of 5 per cent., and this offer the Admiralty accepted. Nearly all materials had to be brought by water to Shotley, the pier belonged to this contractor, and all the roads, drains, and water supply were being constructed by him. In these circumstances it is certainly probable that great friction would have resulted had a second contractor been employed and that the work must have been greatly delayed thereby; while the construction of a new pier, or payment for the use of the existing one, would have raised the tender of any other firm. On the whole your Committee are of opinion that, though they will always scrutinize with the utmost jealousy any proceedings of this character, the application to the Treasury, which is now insisted upon, and their own subsequent review of the proceedings, will impress upon the spending Department a sense of responsibility, and will efficiently safeguard the interests of economy.

* *See* Navy Supplementary Estimate, February 1906, H.C. 59/1906, p. 5.

*Their Lordships need only here record that it has been made clear that they will be consulted beforehand in the exceptional cases where for special reasons it is proposed to depart from the normal and regular course of putting a contract out to open tender.**

MODIFICATION OF SYSTEM OF AUDIT OF NAVY ACCOUNTS.

19. In their Third Report of last year [*see p.* 483], your Committee drew attention to certain changes in the method of audit of Army Accounts, and expressed their general approval of the scheme. The system, which worked well, has now been applied to the accounts of the Navy, and it is anticipated that it will be equally satisfactory.

EXCHANGE OF INFORMATION.

21. Attention having been drawn to a case in which the Admiralty purchased goods from a firm which was supplying the War Office with similar articles on more advantageous terms, arrangements have been made and rules drawn up to ensure a mutual exchange of information on such matters. Your Committee are of opinion that this should lead to economy, and suggest, for the consideration of the Treasury, that it might be advantageous to extend the system to other Departments which have to buy large quantities of stores.

My Lords note the suggestion of the Committee . . . and they will consider in what way effect can be given to it.

STORE ACCOUNTS OF THE NAVY.

General Supervision of Store Accounting.

25. An inquiry into certain discrepancies disclosed in the stocktaking at the Torpedo Depots brought to light the fact that there is no official at the Admiralty charged with the general supervision of accounting throughout the Department. The case of these Torpedo Depots may serve as an illustration. Here, owing to the absence of proper instructions as to the posting of vouchers, the books were incorrectly kept. Attention was drawn to this matter by the Comptroller and Auditor General in the year 1903–4, but it was two years before a book of instructions was drawn up for the information of the officers in charge of stores, and a trained officer sent to look after the accounting work. The Accountant-General of the Navy stated that the Store Accounts did not come under his supervision, and that each store-accounting officer is responsible for seeing that sufficient instructions should be issued and carried out. Your Committee are of opinion that this lack of co-ordination and of central supervision must militate against efficiency and economy.

The Board of Admiralty will, no doubt, give careful consideration to the matter.

DOCKYARD EXPENSE ACCOUNTS.

Material Charged to Building Account but not Used in Construction.

28. In the " Devonshire " and five other cruisers of the same class it was at first proposed to have 6-in. guns firing through casemates, and armour plates for these casemates were provided at a cost of £10,600 per ship. Subsequently the scheme of armament for these ships was altered, and the casemates were not required; there was at that time no other use for the plates, but they could only have been sold at a nominal price, and, on the other hand, if kept in stock might become useful if some

See also P.A.C. 4. 1909. 1 at p. 514.

similar ship incurred damage to her casemates. In these circumstances it was decided to let the cost of these plates remain charged to the building account of the several ships, and to put any credit which might be subsequently realized by their sale, or application to another service, to their maintenance account. Your Committee consider that the course adopted was the proper one to take in this particular case.

SECOND REPORT, 1907. H.C. 252.

Treasury Minute, 31 December 1907.

ARMY APPROPRIATION ACCOUNT.

COMPARISON OF ESTIMATE AND EXPENDITURE.

Variation between Forecast and Actual Outcome of Expenditure.

2. The surplus, which would have been larger, by £245,000, but for the additional expenditure sanctioned by the Treasury on the rearmament of the Artillery, is nearly twice as large as any that has occurred in Army Votes for the last twenty years, and is considerably in excess of the surplus on the combined Votes of the Navy and Civil Services and Revenue Departments in the year under review, where an expenditure of £82,000,000, was involved.

From the correspondence it must be further observed that the actual surplus on 31 March 1906, was almost double the amount (£691,000) anticipated by the War Office in their forecast submitted to the Treasury as late as 22 March 1906.

In reply to the request of the Treasury that in view of the unsatisfactory result and inadequacy of the explanation further information should be provided before your Committee met, a letter containing two memoranda was handed in to this Committee.

It will be seen from these papers, and from the evidence of the Director-General of Army Finance, that the year under review was the first year of work under the new system, resulting from the recommendations of the Esher Committee,* a system which brought with it a complete upheaval of the War Office, and a change of personnel so thorough that it can be best realized by quoting the words of the Director-General of Army Finance: "All those who had life-long "experience in dealing with the finance of the Army disappeared." Your Committee recognize the difficulty created by these circumstances, and are glad to learn that "there is the most extraordinary desire on the "part of the Military Headquarters Staff to effect reductions."

The point is not only one of initial estimate but of the large discrepancy between the War Office forecast (£691,000) of 22 March 1906 and the actual result (£1,334,136) of nine days later. So far as that discrepancy is concerned, your Committee have no option but to accept the explanations furnished on behalf of the War Office.

As regards the future, they are without assurance that a more satisfactory result may be expected. For it has been explained to them that the military Directors (who now frame Estimates and control the progress of expenditure) "are transient officers who come to their post "with very expensive notions, and only get to know their work

* War Office (Reconstitution) Committee; Reports presented in 1904, Cd. 1932, 1968, and 2002.

" thoroughly by the time they have got to go "; and that, as was admitted by the representative of the War Office, the financial shortcomings now under notice may be repeated again, possibly periodically.

It is not for your Committee to indicate what administrative steps (if any) are necessary to ensure an efficient system. They confine themselves at the present time to saying that the importance of accurately estimating expenditure and forecasting liabilities cannot be too strongly insisted upon, and that they hope that the responsible Ministers of the day will take every means necessary to secure that end.

The matters dealt with in this paragraph are of the first importance. Speaking generally, it may be laid down that inaccurate Estimates imply looseness of control; and, while introducing disorder into the public finances, they tend to extravagant administration. The Committee, however, recognize that the forecasting of requirements and liabilities in the year under review was attended with exceptional difficulty in consequence of the changes introduced into Army administration as a result of the recommendations of the Esher Committee. My Lords trust that with more experience of the working of the new system it will be found possible to bring the Estimates into much closer conformity with the expenditure; but it appears to them that this result can only be attained by more effective communication between the Financial Department of the War Office and the officers responsible for expenditure. In the meantime my Lords note with satisfaction the great improvement effected in the forecast for the March quarter of the present year, which was within £101,000 of the actual result, as against £643,000 in the previous year. The improved arrangements for watching and forecasting expenditure which are described in the Memorandum accompanying the War Office letter to the Treasury of 9 April 1907 (printed as Appendix 14 to the Reports of the Committee) appear to my Lords to be well considered, and they trust that the working of them may continue to receive the earnest attention of the Army Council.

VOTE 10.—WORKS AND BUILDINGS.

Cost of Staff.

20. Your Committee in their First Report for last year [*see p. 480*] dealt with the ratio which the cost of the staff bears to the works carried out for the Admiralty. It was then stated that this ratio amounted to about 6 per cent., and the hope was expressed that it might be reduced. A similar calculation has now been made of this charge under Vote 10 of the Army Account and the Military Works Loan, and it appears that it amounts to 11·74 per cent. The Director-General of Army Finance argued that the figures available afforded no basis for any reliable calculation, and that the cost of staff included a number of charges for maintenance of existing works and other such services, and that, whether it was required in time of peace or not, a sufficient staff had to be kept up for war.* . . .

STORE ACCOUNTS OF THE ARMY.

Accounting Officer and Surplus Stocks.

29. The Comptroller and Auditor General drew attention to the fact that large quantities of . . . ammunition existed in certain stations abroad which were of old dates of manufacture, and suggested that if the stock was excessive loss might occur through deterioration. Your

* See also War Office Memorandum of 8 May 1908, appended to P.A.C. Reports 1908 (H.C. 166, 225, 253, p. 489); and P.A.C. 2. 1908. 14 at p. 501.

Committee learned that, if it was brought to the notice of the Director-General of Army Finance from War Office papers that large accumulations of old ammunition were held in stock, it would be one of his proper functions to draw the attention of the responsible officer—the Master-General of the Ordnance—to the matter, and to make inquiry as to the necessity of keeping so large an amount. In the case under review this was done, and the explanation given was considered satisfactory.

Responsibility of Accounting Officer and Secretary of State for Expenditure.

To carry the matter a step further, a case was suggested of some expenditure incurred in which the explanation of the responsible officer might not be satisfactory from the financial aspect. Here the Director-General of Army Finance would enter a written protest, which would be brought up at the meeting of the Army Council by the Financial Member; the Master-General of the Ordnance, also a member of the Council, would support his own action, and the question would be decided by a majority of the Council. The question has arisen whether the Accounting Officer's protest can be overruled by the Army Council acting without the Secretary of State for War, or by a majority of the Army Council in opposition to the Secretary of State. Your Committee desire therefore to record their opinion most distinctly that, though the Order in Council makes a division of certain functions of the Secretary of State among the members of the Army Council, it is the Secretary of State alone who can override a protest of the Accounting Officer as regards a payment.

ARMY ORDNANCE FACTORIES.

Comparison of Trade and Factory Prices.

32. The Comptroller and Auditor General states that at his request the War Office have agreed to furnish him with the documents by which a comparison can be made between trade and factory prices, which he believes will be useful. Hitherto the objection has been raised that such a return would tend to disclose secret matters, but the Comptroller and Auditor General will use it confidentially.

Piece-Work Prices.

33. A considerable reduction has been effected in piece-work prices by establishing a special rate-fixing branch. The rate-fixers have been workmen themselves, and if dispute arises as to the correctness of the price fixed, these men can substantiate their case by doing the work themelves. There is considerable elasticity in this system so that, while it does not press unduly upon the less skilful man, it enables the best men to earn a great deal more than they did before.

ARMY ORDNANCE FACTORIES VOTE.

Expenditure in Anticipation of Vote.

36. Your Committee again draw attention to the fact that as this Vote is not taken under the general Army Vote, it is necessary every year to incur expenditure on this account in anticipation of the Vote. To avoid this irregularity they recommend that the Vote should be taken earlier in future.

The recommendation of the Committee . . . should not be lost sight of, and every effort should be made to comply with it so far as Parliamentary exigencies will permit.

MILITARY WORKS LOAN ACCOUNT.

Irregularities in Accounting.

42. The Comptroller and Auditor General drew attention to a case of irregularity in accounting which your Committee regard with considerable anxiety. The officer responsible for the account was in charge of a large work on which the expenditure was about £150,000. Different items of the work necessitated many separate accounts, and as a reduction of the staff for Loan Works was arranged to take effect on 31 March 1905, this officer was instructed to complete all his bills by that date. He would not have been blamed if he had been unable to do this, but, instead of saying that there was not sufficient time, he proceeded on his own discretion to adjust these accounts so that the savings and the excesses balanced each other, transferring a small saving on one item to meet an excess on another, and *vice versa*. The matter became known because no receipt was forthcoming for a small bill for stone, and on investigation by a Court of Inquiry many other items were found to have been adjusted. No evidence of fraud was discovered, however, nor was there any loss of money. The General Officer Commanding and the authorities at the War Office arrived at the conclusion that it was a most serious irregularity, but was not a question of fraud, and that the officer should be reprimanded.

Your Committee inquired why a falsification of accounts, which in civil employment would have been probably visited with dismissal, should in the Military Service be punished only by a reprimand; they were informed that a reprimand is a very serious punishment, and they accept the decision of the War Office on the point of discipline. The uneasiness aroused by this case lies in the fact that an officer of field rank, with a good record, and no idea of fraud, had such a distorted view of his responsibilities and duty that in his letter of explanation he said, " I considered that it was quite justifiable to transfer day work " from one item to another in some cases so as to adjust the accounts. " I did so in the interests of the public service to get the accounts " closed."

If such views were prevalent in the Service no system of accounting would be of any value.

A strongly worded circular has been sent to all Engineer Officers directing their attention to this case, and pointing out that such action " practically amounts to a falsification of accounts." It is also stated that " It will be necessary to deal most severely with cases of this " nature." Your Committee hope that after this warning there will be no recurrence of such a case, but in the event of any resort to similar practices being detected they consider that the offender should be punished with the severest penalty.

My Lords commend the observations of the Committee to the earnest attention of the Army Council.

THIRD REPORT, 1907. H.C. 265.

Treasury Minute, 18 December 1907.

CIVIL SERVICES APPROPRIATION ACCOUNTS.

CLASS II., VOTE 6.—COLONIAL OFFICE.

Emigrants' Information Office—Grant in Aid.

5. In their Second Report for 1906, your Committee raised the question of the necessity for the continuance of this grant. The Colonial Office maintain that the continuance of the central office is necessary,

for, though intending emigrants may obtain information about any particular colony from its Agent-General, that obtained through this channel enables them without difficulty to make a comparison between the different Colonies as regards their suitability.

CLASS IV., VOTE 1.—BOARD OF EDUCATION.

Grants to Schools of Art: Basis of Distribution.

10. In the Second Report of your Committee last year, criticism was directed to the method of assessment employed by the Board of Education in distributing their grants, and it was then recommended that the regulations should be framed in such a manner that the Comptroller and Auditor General should have no difficulty in applying an effective examination to the accounts. It is now stated that the necessary steps have been taken. The Comptroller and Auditor General finds that the new arrangement is on a strictly scientific basis, and will result in a decided economy.

Purchase of Chemicals.

11. In the same Report reference was made to the system of purchasing chemicals for the use of the Royal College of Science, and it was recommended that the Department should inquire what was the practice of the various Universities and Colleges in the matter. This inquiry has been made, and in the case of six representative institutions it was found that the chemicals required are purchased from selected firms, and in no case offered for tender. The Department is satisfied that it is the best system, and your Committee accept the decision.

CLASS V., VOTE 2.—COLONIAL SERVICES.

Maintenance of Political Prisoners; Recurrent Special Subhead.

16. A new subhead was opened in the account for 1904–5 for the maintenance of two political prisoners from Tonga, in the Western Pacific, but no provision has ever been made for this service in the Estimates, " as it was known that there would be savings on other " subheads." The charge is small, and the omission of it from the Estimates may have been partly due to uncertainty as to the duration of the prisoners' detention. Your Committee, however, must point out that the non-inclusion of this subhead in the Estimates withdraws the matter from the observation of Parliament, and it is therefore objectionable in priniciple.

My Lords concur in the principle laid down by the Committee with reference to the omission to make specific provision in the Estimates for the charge in respect of the maintenance of two political prisoners from Tonga. But, so far as the facts of this particular case are within the knowledge of this Board, they are under the impression that, although the charge extended into the Accounts of three financial years, your Department would not have been justified, on the information available at the time, in making provision for it in the Estimates for any of those years.

REVENUE DEPARTMENTS.

VOTE 5.—POST OFFICE TELEGRAPHS.

Store and Expense Accounts; Irregular Adjustments.

19. Your Committee were informed that in the Store Accounts of Edinburgh, Glasgow, and Cardiff adjustments had been made by the transfer of stores and wages from one work to another, in order to

effect an agreement as far as possible between expenditure and the authorized estimate for each individual work. Suitable disciplinary action was taken in these cases, and the Comptroller and Auditor General states that in his last examination at Cardiff there was a very decided improvement in the accounts. These cases are similar to one noticed in the Second Report of your Committee this year [*see p.* 493], and, in order that the serious impropriety of such practices may be emphasized, your Committee recommend that all spending Departments should be warned that though criticism may be directed against bad estimates, far more serious consequences will follow if in order to make it appear that the expenditure agrees with the estimate the accounts are falsified.

So far as the Admiralty and War Office are concerned, this matter will be dealt with in a separate Treasury Minute in reference to paragraph 42 *of the Committee's Second Report, and directions have already been given in the present Minute for the communication of paragraph* 19 *of the Third Report to the First Commissioner of Works, the Commissioners of Public Works for Ireland, and the General Prisons Board for Ireland.*

Write also to the Post Office, and to the remaining Public Departments whose business appears to be of such a character as to bring them within the intention of the Committee's recommendation.

Orders for Engineering Stores Placed with the Factories instead of with Contractors.

20. The Comptroller and Auditor General reported that certain stores were issued from the factories at Mount Pleasant and Holloway which might have been bought from contractors at a lower price. It was explained that this was done when work was slack, in order to keep the skilled workmen at the factories in employment, and that from the financial point of view fluctuations in the number of the staff at the factory would not be economical. Skilled hands would drift away and then in a period of pressure others would have to be trained. The loss on the stores in question was under £1,000, and it was argued that taking all the circumstances into consideration the course adopted was the best. Your Committee learnt with satisfaction that there is no tendency to increase the manufacture of articles which could be more cheaply supplied from outside the factories.

My Lords share the satisfaction expressed by the Committee on learning that there is no tendency to increase the production in the Post Office Factories of articles which could be obtained from contractors at a lower price.

FIRST REPORT, 1908. H.C. 166.

Treasury Minute, 31 December 1908.

CIVIL SERVICES APPROPRIATION ACCOUNTS.

CLASS I., VOTE 1.—ROYAL PALACES.

Work undertaken for Tenant of Grace and Favour Residence.

1. The Comptroller and Auditor General reports for disallowance a sum of £370 11*s.* incurred on the installation of electric lighting at Hampton Court Stud House. This disallowance does not imply that the payment in question was an improper one, but merely that it ought

not to be charged against the Vote. The tenant of the Stud House, which is technically described as a "Grace and Favour residence," desired to have electric light, and agreed to repay the whole cost of installation, together with interest at 3 per cent. per annum, by instalments extending over a period of four years. The Comptroller and Auditor General considers that this money, being repayable, should not be charged against the Vote, but carried to a suspense account. The Treasury, on the other hand, considered that the work was done for the permanent improvement of a residence in charge of the Office of Works, and that though the payment of the cost by the tenant brought certain receipts against the outlay, that was not a reason for omitting the charge against the Vote. Your Committee are of opinion that the course proposed by the Comptroller and Auditor General is the correct one, and they recommend that the sum be disallowed and carried to a suspense account.

In accordance with the decision intimated by the Committee in paragraph 1 of their Report, the expenditure on the installation of the electric light in the Stud House at Hampton Court, which is recoverable from the occupant of the house, should be excluded from the Account of the Vote for Royal Palaces, 1906–7, and carried to a suspense account.

VOTE 8.—REVENUE BUILDINGS.

Diversion of Savings to New Works not Sanctioned by Parliament.

6. In the report of the Comptroller and Auditor General appears a long list of some of the most noticeable instances of variation between the sums granted for works in progress and proposed new works, and the actual expenditure. The difference is remarkable; for example, on post and telegraph buildings in the country, apart from London, the Vote amounted in round numbers to £247,000 and the expenditure to about £201,000, showing a difference of £46,000. Other examples might be quoted, and your Committee have endeavoured to find some method by which Parliament should be placed in a position of greater control over the sums voted. It must be admitted that various causes contribute to the difficulties of the Department in carrying out any contemplated work on the lines of the Estimate; thus a period of bad weather may delay building operations, difficulties arise with local authorities as to the site or the elevation of the proposed building, and the soil may necessitate unexpected outlay. The present practice is that when the progress of a building is delayed by the above or similar causes, application is made to the Treasury for sanction to divert the money saved in this way to other works which, to avoid undue inflation of the Estimates, had to be cut out at the beginning of the year. The Treasury examine carefully every case thus presented, and only pass it if they are satisfied that the service is one of urgency; but the fact remains that large sums of money are thus spent on works which have never received the sanction of Parliament. A certain amount of elasticity is necessary for the working of the system, and your Committee draw a distinction between the diversion of money to a building already sanctioned by Parliament, and its diversion to one which has never been on the Estimates. They therefore recommend that the Treasury shall exhibit the utmost jealousy of any proposal to use savings for the commencement of any new work.

To the First Commissioner of Works.

My Lords do not doubt that they will receive the co-operation of your Department in their efforts to give effect to the wishes of the Committee.

CLASS III., VOTE 14.—LAW CHARGES AND CRIMINAL PROSECUTIONS, IRELAND.

Payment of Expenses for which Local Authorities are liable.

11. The Comptroller and Auditor General has called attention to certain payments out of this Vote, for expenses in connexion with Prosecutions at Assizes, Quarter Sessions, and Petty Sessions, for which local authorities are made liable by Statute. Your Committee, after hearing the evidence of the Comptroller and Auditor General, and of the representative of the Treasury, are of opinion that, while it is undoubtedly within the discretion of Parliament to override the provisions of an existing Statute by a Vote in Supply confirmed by the Appropriation Act, it is desirable in the interests of financial regularity and constitutional consistency that such a procedure should be resorted to as rarely as possible, and only to meet a temporary emergency. In cases where such an emergency arises, and there are reasons against the amendment or repeal of the Statute governing the case, your Committee recommend that the fact that the proposed Vote overrides an existing Statute should be clearly stated on the face of the Estimate, with the reasons for adopting that course, so that no doubt can exist of the deliberate intention of Parliament. The exceptional nature of the Vote should also be indicated in the Appropriation Act.

In the case under notice provision has been made for the service in the Estimates since 1860–61, with nothing to indicate to Parliament that the expense is imposed by Statute upon the local authorities. It is proposed that the facts should in future be specially stated on the Estimate, but your Committee are of opinion that should the service continue to be paid for by Vote of Parliament, the governing Statutes should be repealed or amended.

I am . . . to request that my Lords may be favoured with His Excellency's observations on the matter.

CLASS V., VOTE 1.—DIPLOMATIC AND CONSULAR SERVICE.

Subhead M.—Compassionate Gratuities.

14. Gratuities ranging from £222 to £8 were given to retired Chancery and Consular attendants in lieu of pensions. It is stated that by a curious custom, supposed to have some Oriental origin, triennial gratuities are given to these subordinate officials on their retirement, and that these sums are paid in advance for the three years to come. Your Committee were informed that this system is cheaper than the usual pension scheme, but they desire to draw the attention of the Department to the point that if one of these men were pensioned, his pension would cease if he died, whereas if he die soon after receiving his triennial gratuity, his representatives become possessed of a considerable sum of public money. It seems doubtful, therefore, whether, on the whole, this system would be more economical than the ordinary pension.

It was the practice of the Treasury, as the Secretary of State is aware, up to the passing of the Superannuation Act, 1887, to award compassionate allowances, at one-fifth below the scale laid down by the Superannuation Act, 1859, for statutory pensions, to certain classes of non-established employees both at home and abroad, among whom these attendants were included; but upon the introduction of the Act of 1887 a pledge was given that these extra-statutory allowances should cease.

In 1890, however, in view of representations received from the Marquess of Salisbury that the scheme of gratuities established by that Act was unsuitable for these employees, the then Board of Treasury agreed by their letter of 21 January to a special arrangement under which Parliament was asked to place a sum of £500 a year at the disposal of the Secretary of State for the purpose of granting retiring gratuities to such persons upon a scheme to be approved by the Treasury. A scheme was accordingly prepared by the Foreign Office and approved on 25 April 1890.*

This scheme, while providing in other cases for a single lump-sum payment—an arrangement not now in question—included a permission to make recurrent grants to persons of 18 years' service and over, and it is upon this that the practice commented on by the Public Accounts Committee is based.

The scheme as originally proposed provided in such cases for "a "gratuity which might be repeated triennially . . . the amount of "any repeated award to be subject to the other claims upon the Subhead "of the year," and in the covering Foreign Office letter it was stated that "it is understood that such renewals will not be made in cases in "which the Secretary of State may not consider that the circumstances "warrant such a course, and (? will be) subject to the state of the "Subhead for the year admitting of it."

The Treasury agreed to the proposals with some reluctance, and did not contemplate the establishment of such a system of extra-statutory pensions by triennial payments in advance, as appears to have been the outcome of the arrangement.

They were also under the impression that the gratuities were intended only for persons serving in a menial capacity; but they notice that one of the gratuities which came under the notice of the Public Accounts Committee amounted to £222, a sum which appears to correspond with an annual salary of more than £120.

My Lords agree with the Committee that the system of triennial gratuities is not economical; and they think that steps should be taken both to limit the amount of the gratuity in any particular case, and to prevent its acquiring the character of a pension paid at regular intervals, which in any case should not be paid in advance.

I am therefore to suggest that the Secretary of State should take the matter into his consideration and favour my Lords with his observations on the subject.†

Visits of Inspection and Local Test Audit Abroad.

15. . . . During last autumn the Assistant Comptroller and Auditor visited British East Africa in connexion with Colonial accounts, and on the way he carried out an inspection and local test examination of the accounts of the chief Consular posts in Egypt and of the Consulate-General at Zanzibar. The results were on the whole satisfactory. Your Committee are of opinion that such visits from the Central Department are of great assistance to distant branches, and conduce to efficiency. They recommend that if it be found practicable similar visits should be made in future by some senior representative of the Exchequer and Audit Department to other distant posts.

* The limit £500 has now been abolished, see Civil Services Appropriation Accounts, 1907-8, H.C. 13/1909, p. 457.

† A new system was adopted in 1909 with Treasury approval, under which payments are based on awards of yearly sums, see Civil Services Appropriation Accounts, 1909-10, H.C. 7/1911, p. 827.

REVENUE DEPARTMENTS.

VOTE 3.—POST OFFICE.

Telegraph Stores charged to Works Subhead before Payment.

19. The Comptroller and Auditor General drew attention to a case in which certain stores which had not been paid for, and, consequently, had not been charged to Subhead W (the Purchase Subhead) in the financial year under report, had been debited to Subhead R2, although in some cases they were not inspected after transit, and so not regularly taken over from the contractors, until the following year. This procedure was not in conformity with the conditions originally approved by the Treasury, and although they ultimately gave their covering sanction to the course adopted on the ground that the result was not in conflict with their intentions, your Committee are of opinion that the established procedure should in similar cases be complied with.

To Postmaster General.

I am to request that my Lords may be favoured with your observations.

SECOND REPORT, 1908. H.C. 225.

Treasury Minute, 31 December 1908.

ARMY APPROPRIATION ACCOUNT.

Payments at Close of Year.

1. . . . The surplus would have been larger but for certain payments in 1906–7, amounting to a total of £213,444, which in the ordinary course would not have been paid until the year 1907–8, and your Committee are of opinion that the practice is undesirable, and that great care should be taken that such payments in advance should not be made, as otherwise the comparison of one year with another is vitiated, and the Old Sinking Fund is reduced in one year to the advantage of the Estimates of the next year. . . .

My Lords desire to refer to Treasury Minute on the Second Report of the Public Accounts Committee, 1896, paragraph 4 (c) [see p. 882], *in which the question of the limits of expenditure in cases where surplus funds are available at the close of the financial year is discussed, and the relation between a saving on a Vote and the "Old Sinking Fund" is explained. My Lords need only restate the opinion then expressed that a spending Department does right to call in and defray its matured liabilities so far as the funds placed at its disposal by Parliament and Treasury Regulations permit. On the other hand, a spending Department cannot be too careful to bear in mind that expenditure incurred at the close of a financial year, with a view solely to avoid a subsequent surrender, is to be reprehended. In the present case, where the expenditure in question was mainly in respect of current supplies, which would in the ordinary course have been paid for in the first month of the following financial year, the effect should have been to relieve the burden of expenditure in that year, and my Lords desire to be informed, with reference to the account for the year 1907–8, whether such, in fact, was the case. At the same time they must impress upon the Army Council that, though special circumstances, combined with the difficulties*

which are inseparable from the annual appropriation of Votes for stores and buildings, especially in the case of large spending Departments, may from time to time lead to an uneven allocation of payments between successive years, yet it is most desirable, as pointed out by the Committee, that payments should follow the normal course from year to year.

SUPPLEMENTARY ESTIMATE.

*Subheads on which Savings were anticipated not specified.**

2. A Supplementary Vote for a net sum of £100 was passed by the House of Commons on 12 March 1907. . . . Provision was made for reductions under the following Votes:—

	£
Vote 1, Pay, &c. - - - -	250,000
Vote 6, Quarterings, &c. - - -	43,000
Vote 7, Supplies and Clothing - -	165,900

Your Committee regret that these reductions were not, as in some previous years, earmarked as arising on particular subheads.

My Lords need hardly say that it is their desire that the fullest information necessary for the explanation of an Estimate should be given to Parliament. At the same time it must be remembered that an Estimate does not purport to render an account, but is a statement of proposed expenditure. In the case of the "token" Supplementary Estimate of 21 February 1907 in question, no demand, beyond a nominal sum of £100, was being made upon the Exchequer for funds in excess of the supply already voted for the service of the year, but authority was being sought for utilizing savings, which were anticipated, for purposes for which the Board of Treasury did not feel justified in authorizing the application of such savings under the powers vested in them by Section 4 of the Appropriation Act. The "token" Estimate only dealt with savings to the amount up to which they were required for the two new services, and as this amount (£459,000.) fell very far short of the total savings on Army Votes, 1906–7, which might even then have been anticipated, it is obvious that there was a very wide field for selection of heads under which the funds required could be found. The Votes actually chosen were those under which sufficient savings could with certainty be foreseen, but a reference to the Appropriation Account (where the result of the expenditure is given under every subhead) will show that under those Votes alone there were surpluses very considerably in excess of the amount required, and that any distribution of the amount among the numerous subheads would have been quite arbitrary and have had no bearing on the expenditure to meet which a transfer between Votes was being proposed.

In the circumstances my Lords are of opinion—and they trust that with the foregoing explanation, the Committee will share their view—that the "token" Supplementary Estimate in question was prepared in a form as convenient for Parliamentary consideration as the circumstances would permit. Where, however, there are certain large subheads, as for instance in Vote 8, under which savings which it is sought to apply to a new service or services are anticipated, the savings to the amount required can without difficulty be shown under subheads instead of under the Vote as a whole, as has been done in some previous years, and my Lords request that the Army Council will note this procedure for their future guidance accordingly.

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* *See also* P.A.C. 5. 1909. 2. at page 517.

VOTE 10.—WORKS AND BUILDINGS.

Cost of Staff.

14. In their second Report of last year, your Committee asked " if " it were possible to have a note furnished them, showing the pro- " portionate cost of Staff to Works from year to year for purposes of " comparison," but they are informed that the Army Council and the Treasury concur in thinking such a note would cost more than it is worth, and they do not therefore press for it. Your Committee note with approval the conclusions of the War Office Memorandum on the subject: " The case will best be met by watching closely, as in the " past, the annual Estimates and the annual expenditure; by reducing " the permanent staff to the lowest possible minimum, consistent with " the economical execution of the normal requirements; and by securing " the earliest possible discharges of any temporary staff taken on to " meet any special demands," and desire to emphasize the importance of these principles being kept steadily in view.

The Army Council will note this expression of opinion on the part of the Committee, and my Lords need add nothing to the observations by this Board in a similar sense contained in Treasury letter to the War Office of 13 *May last* [Appendix to P.A.C. Reports 1908, p. 492].

Triennial Contracts.

15. The War Office have, after prolonged consideration, decided to continue the system of triennial contracts. Your Committee were informed that the limit up to which triennial contractors could claim the execution of service had been fixed in the case of the Ordnance Factories at £400, and in the military districts at £300, though in very exceptional cases the Army Council might sanction a maximum of £1,000 and £500 respectively. It appears that the War Office hold the view that they are at liberty to vary these figures without reference to the Treasury. Your Committee are, however, of opinion that, before the limits are varied, the consent of the Treasury should be sought. There is one matter connected with triennial contracts to which the Committee have given special consideration. It often happens that a service is undertaken, costing in the aggregate more than £1,000 and composed in whole or in part of services for which they are already triennial contractors, to whom it is held by the War Office that the work must be assigned under the present conditions. Your Committee do not concur, and consider that the general rule should be that in such cases the service should be put out as a whole to open tender.

The Army Council will observe that the Committee are of opinion that, before the limits are varied, the consent of the Treasury should be sought. My Lords share this opinion . . .

At the same time I am to state that my Lords are not satisfied as to the expediency of retaining power to call upon the triennial contractor to execute services up to £1,000. *They think that work placed with triennial contractors should be confined as far as possible to repairs and maintenance, and that for these purposes the limit of* £300 *proposed in Treasury letter of* 8 *April* 1907 (6096/07) *should suffice. They suggest it accordingly for the further consideration of the Army Council.*

As regards the second point dealt with by the Committee, namely, the splitting up of Ordnance Factory services among the triennial contractors costing in the aggregate more than £1,000, *my Lords trust*

that the Army Council will not fail to exercise supervision over this matter with a view to recourse being had to competitive tender wherever possible, as the general rule and practice.

VOTES 8 AND 9, AND ORDNANCE FACTORIES VOTE.

Advances to Contractors; Charge to Suspense Account.

18. The Comptroller and Auditor General has drawn attention to the fact that under new regulations in the case of stores delivered, but not inspected, the advances paid to the Contractors are charged to the Vote instead of to the Contractor's personal account, as was laid down in para. 17 of the Second Report of P.A.C., 1890.* The War Office, on the other hand, contend, and in this view they are upheld by the Treasury, that these cases may be regarded as coming under the category of special cases dealt with in para. 6 of the [Fourth] Report of 1890.†

Your Committee do not concur, and consider that the more correct course is to charge the advances in question to the Contractor's personal account. They understand that the forms of contract are under revision, and they are of opinion that the regulations governing these advances should be made clear.

My Lords agree with the Committee that, in the case of stores delivered, but not inspected, the more correct course is to charge advances paid to contractors, not to the Vote, but to the contractor's personal account. They will be glad to have further information from the Army Council as to the revision which is taking place in the forms of contract, and to consider any proposals for making clear the regulations governing these advances. [See further P.A.C. 5. 1909. 6 at p. 517.]

STORE ACCOUNTS OF THE ARMY.

Land Service Stores in Reserve Depots: Stock Valuation Return.

23. The Comptroller and Auditor General reports that the Valuation Statements of this year show an improvement, and greater accuracy has been shown in the compilation of the figures by the War Office. During the past year a Conference was held, composed of representatives of the War Office, the Admiralty, and the Treasury, who have recommended the discontinuance of the Stock Valuation Return.

In the opinion of the Accounting Officer, the Valuation Return is a "work of supererogation, and not worth the labour or expense which is devoted to it." In a memorandum‡ which he put in for the information of your Committee, it was stated that: "As the present Valuation "Statement cannot safely be relied upon by Parliament, as showing the "fluctuations in stocks of military stores from year to year, it remains "to be considered whether this object can be attained in any other "way. Only two methods suggest themselves to the Army Council:—

"(A) That a return be presented annually showing the "quantities of certain selected important items of store; or,

"(B) That a certificate be rendered annually with estimates to "the effect that sufficient, but not excess, provision has been "made to maintain the authorized proportion of stores, both for "reserve and for current necessities."

Your Committee recommend that both these methods should be adopted.

* See p. 250. † See p. 255.
‡ Appendix 9 to P.A.C. Reports 1908. p. 498.

But careful attention must be given to the question by whom the certificate (B) is to be signed, and the form in which it is to be rendered, so as to ensure full and correct information being furnished.

Your Committee understand that this proposal only applies to the Army, and that the Admiralty do not share the view that the statement should be abandoned, as there is a statutory obligation on them to render certain returns. Your Committee will deal more fully with the point in the Navy Accounts.*

In assenting to the conclusions of the Conference on the subject of the Army Stock Valuation Return, by Treasury letter of 4 June 1908 (6287/08), *my Lords intimated that they would be glad to be consulted before the form of the " certificate " was settled, and they understand that the Army Council will shortly submit to them proposals on this matter.*†

Accounting for Stores and Supplies on Active Service.

28. Your Committee are informed that the Departmental Committee appointed to consider the proposal to dispense with store and animal accounts of field units on active service has presented its Report, recommending that accounting for supplies and animals should not be carried beyond the depots, pointing out that under this arrangement supplies issued to the parks and columns will be treated as final issues to the troops. Advanced depots for medical stores are to be held in the same position as supply parks rather than depots in the ordinary sense, and it is recommended that they should only keep accounts if bulk issues were made to hospitals. The recommedations of the Committee have been adopted by the Army Council, and approved by the Treasury, and your Committee concur in that approval.

ORDNANCE FACTORIES (MANUFACTURING ACCOUNTS).

Comparison of Trade and Factory Prices.

36. At present there are various considerations which tend to interfere with a direct comparison of Factory and Trade prices, and it would appear that the recommendations of a Committee on Government Factories and Workshops,‡ presided over by Sir G. H. Murray, (which are accepted in the main by the Army Council), will make the comparison still more difficult.

That Committee recommends that the normal establishment of the Arsenal shall be fixed at the minimum which will enable the output to be increased on emergency to the greatest possible extent in the shortest possible time. This policy is clearly incompatible with the most economical method of production, as it entails the upkeep of unused buildings and machinery maintained with a view to expansion, the cost of which tends to swell the price of the Ordnance Factory productions. Your Committee are of opinion that it is of the utmost importance that the real cost should be shown of articles produced in Government factories.

GENERAL OBSERVATIONS (ARMY ACCOUNTS).

System of Financial Control.

39. In the course of the examination of these Accounts reference has been made to the working of the decentralized system of financial control inaugurated throughout the military service in 1905. Your Committee

* See 3rd Report, para. 17 at p. 505.
† See further P.A.C. 5. 1909. 11 at p. 520.
‡ See Report presented in 1907, Cd. 3626.

are informed that the system is working well; that the Accounts are presented more quickly than formerly, and that there is an entire absence of friction between the military officers and the accounting staff; that " the military side are turning to the Chief Accountants for advice and assistance with great cordiality," and that the independent position of the accountant officers enables them to give sound and valuable advice to the military officers in their respective commands. Your Committee view these results with satisfaction, and express their strong opinion that under no circumstances should any change in the administration of the War Office be permitted to impair the independence of the Accounts Branch, or to lessen the direct financial power and responsibility of the Accounting Officer and his staff. As Director of Army Finance he is charged with advising the administrative officers at the War Office and in Commands on all questions of Army expenditure. As Accounting Officer he is the sole judge of whether Army expenditure should or should not be allowed, and nothing but the authority of the Secretary of State, given personally and expressly in writing under his own hand, can discharge him of this responsibility. Your Committee regard this independence and undivided responsibility of accounting officers as essential to the proper discharge of their duties, and to the maintenance of effective Parliamentary control over military administration and expenditure.

My Lords are entirely in accord with this expression of opinion by the Committee, and they need only commend it to the attention of the Army Council.

THIRD REPORT, 1908. H.C. 253.

Treasury Minute, 31 December 1908.

NAVY APPROPRIATION ACCOUNT.

Cost of Victualling Seamen when working for Private Individuals.

4. It appears that since 1895 the King's Regulations have not provided for the recovery of the expenses of victualling, as well as the pay and allowances of officers and men of His Majesty's ships when working for private individuals. While recognizing the difficulty in many cases of estimating the exact cost, your Committee are of opinion that the charge which may be made against individuals should include this item.

VOTE 11.—MISCELLANEOUS EFFECTIVE SERVICES.

Departmental Regulations.

11. Your Committee have noticed under this and other heads of the Accounts instances in which improved regulations have been adopted in consequence of some irregularities occurring under the old ones, and they cannot but think that more care might be exercised in the original framing of regulations, and in revising them from time to time to meet altered circumstances . . .

BALANCES IRRECOVERABLE.

Excess Cost of Erection of a Coastguard Station at Ingoldmells.

Release of Retention Money before Completion of Work

12. The Comptroller and Auditor General points out that in this case out of a sum of £100, retained in lieu of bond under the conditions

of the contract, £55 was released and paid over to contractors before completion of the work. He considers that such a release amounts to a waiver of contract conditions, for which prior Treasury sanction should have been sought, an opinion in which the Treasury concur. It has, however, been explained to the Committee that the clause in the contract was drawn with the express purpose of allowing such release to be made, and that the Admiralty have taken care that in future contracts the wording is so altered as to make it clear that it will be within the power of the Board of Admiralty alone, and not of the Director of Works, to allow such release.

Appointment of Admiralty Officials as Arbitrators under Contracts.

13. Reference to this was made in the Report of the Public Accounts Committee of last year, as well as in the Treasury Minute of 31 December 1907, founded upon that Report.* Your Committee were informed that the Admiralty, after giving the matter very full and serious consideration, and after communication with the Treasury, have decided to adhere to their present procedure, which on the whole works well both for the Admiralty and for the contractors, by the majority of whom it is approved. Your Committee after hearing the evidence see no reason to dissent from this decision.

Store Accounts of the Navy.

Valuation of Naval Stocks.

17. As stated in the Second Report of your Committee for this year,† the War Office, with the concurrence of the Treasury, propose to abandon the Stock Valuation Statement, and in lieu to furnish annually a certificate that an adequate reserve of stores is maintained, and your Committee have expressed their concurrence in the proposal. The Admiralty do not propose to follow the same course, and the Inspector of Dockyard Accounts has explained to your Committee that in the case of stores available for shipbuilding purposes (Vote 8) a valuation of the stock balances at the commencement and close of each financial year is absolutely necessary for the purposes of the Expense Accounts which are required to be kept for the information of Parliament under the Army and Navy Audit Act, 1889; an opinion shared by the Comptroller and Auditor General. As regards the valuations of stocks other than Vote 8, the Admiralty, while admitting that they are not indispensable, prefer to retain them, as they are not costly to prepare and are accurate. The Admiralty, like the War Office, on public grounds, are not prepared to publish a statement of quantities of stocks, but your Committee think it worthy of consideration whether the Admiralty might not in the case of victualling, clothing, and naval ordnance stocks, furnish a certificate, as the War Office propose to do, as to the adequacy of the reserves.

My Lords await a communication from the Army Council on this subject, and in the meantime they will be glad to be favoured with the views of the Board of Admiralty on the suggestion of the Committee in the case of Navy Accounts.‡

* First Report 1907, para. 22 (H.C.205); see also P.A.C. 1. 1906. 13 at p. 481.
† Para. 23, see p. 502. ‡ See further P.A.C. 2. 1910. 9 at p. 523.

SECOND REPORT, 1909. H.C. 125.

Treasury Minute, 7 December 1909.

CIVIL SERVICES AND REVENUE DEPARTMENTS ACCOUNTS.

Summary of Estimated and Realized Appropriations in Aid.

1. . . . No summary is given in the Appropriation Accounts of the estimated or realized Appropriations in Aid of Civil Services and Revenue Departments Votes, as in the case of the Army and Navy Accounts.

Your Committee are of opinion that these totals should be given in the Appropriation Accounts in order that Parliament may realize the magnitude of the sums handled by these Departments in addition to the money voted by Parliament. In the year under review the Appropriations in Aid of Civil Services and Revenue Departments were estimated at £2,132,259 (*see* Civil Services and Revenue Departments Estimates, 1907–8; and Supplementary Estimates, 1907–8), while the amount actually realised was £2,260,892 8*s*. 1¼*d*.

Other receipts, not appropriated in aid of Votes, were estimated to realize £285,345, while the amount actually paid into the Exchequer was £909,853 9*s*. 8*d*.

My Lords are bringing to the notice of the Comptroller and Auditor General the recommendation of the Committee that the total amounts of the estimated and realized Appropriations in Aid of Civil Services and Revenue Departments Votes should be given in the Appropriation Accounts, as in the case of the Army and Navy Accounts.

CLASS I., VOTE 1.—ROYAL PALACES.

Work done for Private Individuals.

3. A further instance of a Vote having been charged with the cost of work done on behalf of a private individual has occurred with regard to alterations made at the Ranger's Lodge, Hyde Park, on behalf of the present occupier, the total cost of which amounted to £2,500. With the sanction of the Treasury an arrangement has been come to by which the present occupant is to repay this sum at the rate of £100 a year, but on his vacating the house "the amount of the capital debt "outstanding should be recovered from the succeeding tenant, by "instalments spread over a moderate number of years." The result of this will be that someone to whom His Majesty may grant a Grace and Favour residence will find himself bound to pay for a term of years a sum of money for work which he had not ordered, and of which indeed he might not approve. Your Committee are of opinion that such arrangements are undesirable, and that if work is undertaken in Grace and Favour residences on behalf of any particular occupier, it should be done by an outside contractor and the cost met by private arrangements with which the Office of Works should have nothing to do.

To the First Commissioner of Works.

I am to request that my Lords may be favoured with your observations on the expression of opinion.

VOTE 4A.

Memorials to Deceased Statesmen and other Public Servants.

4. The Treasury have drawn the attention of the Committee to the great uncertainty that arises as to the date at which the money will be required for Memorials to deceased Statesmen. It is obviously desirable that the Parliamentary grant to defray the cost of national tributes of this character should, if possible, be made once and for all by a single Vote. This can be secured if the submission of the Vote is deferred

until the presentation of the Estimates for the financial year within which the work is to be completed, but liabilities would have to be incurred and in some cases payments made before a Vote was taken, and such payments could only be made from the Civil Contingencies Fund—which was primarily intended only for unforeseen payments. Resort to this expedient could not be justified in the case of an ordinary service, but in this case the charge to public funds has been approved by the Address, and it only remains for the House of Commons to determine the amount of charge and to provide for meeting it. The Treasury suggest that this would be effected by the presentation of a complete Estimate before the end of the first financial year within which the expenditure can be completed. If there was an unexpected balance to be surrendered a note might be appended to the Appropriation Account that the remanent expenditure could be met from the Civil Contingencies Fund, and subsequently included in the Estimate for the repayment to that Fund.

Your Committee concur in these proposals.

My Lords note that the Committee approve of the proposal submitted by the Treasury as regards the method of providing the funds required for memorials to deceased statesmen, with the view of securing that the grant should be made once for all by a single Vote.

PAPER handed in by Mr. *Bradbury* (Treasury), Appendix No. 5:—

The proposal to erect a Public Memorial originates in an address to His Majesty by the House of Commons praying that a monument may be erected at the public charge to a late distinguished servant of the Crown. Such an address while committing the House to finding the necessary funds, does not of course dispense with the necessity for providing the cost by the ordinary machinery of a Vote.

There is, however, in most cases considerable uncertainty as to the precise date at which the money will be required. A sculptor has to be found and a model prepared. The sculptor's fee in respect of the model is usually paid upon its completion, the date of which cannot be accurately foreseen, while the cost of erecting the actual statue often falls into a subsequent financial year.

It is obviously desirable that the Parliamentary grant to defray the cost of a national tribute of this character should if possible be made once and for all by a single Vote, and it is unfortunate that the money should (as has happened in recent instances) have to be surrendered and revoted in a subsequent year, with possibly a third Vote a year later to cover an insignificant remanet of the expenditure which came in course of payment after the end of the second year.

The inconvenience can only be avoided if the submission of the Vote is deferred until the presentation of the Estimates for the financial year within which the work is to be completed. This would mean that liabilities would have to be incurred, and in some cases that actual payments would have to be made before the Vote was taken. Such payments could only be made from the Civil Contingencies Fund—a fund primarily intended only for unforeseen payments.

So far as charges might come in course of payment in advance of expectation, resort to that fund would be entirely in accordance with the rules governing its application, and this course has in fact on several occasions been taken in connexion with Public Memorials. In practice, however, expectation is more often disappointed by deferment than by anticipation, and the question arises whether when, at the time of framing the Estimates, a part (but not the whole) of the cost of such a Memorial is expected to become payable within the year of account, the necessity for presenting an Estimate can be dispensed with, the charge, when it arises, being temporarily met by an advance from Contingencies to be covered by a subsequent Vote.

Resort to this expedient could not of course be justified in the case of an ordinary service, with respect to which it is not legitimate except in cases of extreme urgency to incur expenditure until the approval of Parliament has been obtained. But in this case the charge to public funds has been approved by the Address, and it only remains for the House of Commons to determine the amount of the charge and provide for meeting it.

The amount of the charge may be regarded as in practice determined by precedent within very narrow limits. Of the five most recent cases, the monuments to Lord Beaconsfield, Mr. Gladstone, and Lord Salisbury each cost £2,100, while that to Sir H. Campbell-Bannerman is expected to cost the same sum. The other—to General Gordon—cost £3,098. If, therefore, a discretion were allowed to the Treasury to make arrangements according to precedent, the control of the House of Commons would not in fact be prejudiced.

It is submitted that in these circumstances there would be no objection to the employment of the Civil Contingencies Fund for the payment of interim charges incurred in the erection of a Memorial, the cost of which has been approved as a public charge by an Address of the House of Commons, subject to the presentation of a complete Estimate before the end of the first financial year within which the expenditure can be completed.

The deferment could not in any case, in view of the rules governing the Fund, extend beyond the financial year next following that in which the first advance was made. The suggestion is that the total cost should in all cases be voted in that year. In the event of any charges remaining unpaid at the end of the year in which the Vote was taken, the unexpended balance would of course have to be surrendered, but a note might be appended to the Appropriation Account that the remanent expenditure would be met from the Civil Contingencies Fund and subsequently included in the Estimate for Repayments to that Fund.

By this means it would be possible in every case, while preserving the rules governing voted expenditure, to avoid the necessity for presenting more than one specific Estimate for a service of this character.

VOTE 7.—DIPLOMATIC AND CONSULAR BUILDINGS.

Insurance of Goods in Transit.

5. It has been a long-standing practice of the Office of Works to insure in certain cases furniture and goods shipped to places abroad with the object of securing that more care is taken of them in transit. Your Committee are not prepared to say that the usual rule of not insuring Government property should never be broken; but they concur with the Comptroller and Auditor General that any deviation from it ought to be brought to the notice of the Treasury for sanction.

My Lords have arranged with the First Commissioner of Works that in future insurance by the Department may be made (1) *in the case of valuable articles sent by rail which are insured with the Railway Company (an arrangement which gives the Company a direct interest in diminishing risk, and thus tends to secure careful handling of the goods), and* (2) *in other cases in which some specific reason can be shown for exceptional treatment. But, broadly speaking, the rule against insurance by the State will be maintained, and it will (except in rare cases) be applied to goods in transit by sea where it is found on investigation that insurance does not really secure more careful handling.*

To the First Commissioner of Works.

I am to request that any case, other than that of valuable articles insured with Railway Companies, in which it is thought desirable to depart from the general rule of non-insurance of Government property, may be referred to the Treasury for consideration.

VOTE 4.—HOUSES OF PARLIAMENT BUILDINGS.

*Triennial Contracts.**

10. The attention of your Committee has been drawn to the fact that while the Office of Works, like the Army Council, employ triennial contractors, they are not (like the Army Council) under an obligation to put any work costing £300 or upwards to competitive tender, unless Treasury sanction has been obtained to such work being done by the triennial contractor. Your Committee are aware that in dealing with special buildings, such as the Houses of Parliament, it is not desirable to multiply the number of contractors employed; but they are of opinion that the Office of Works might well be brought under the same obligation as the Army Council, as the Treasury would be prepared to make all necessary allowances in giving or withholding their sanction.

To the First Commissioner of Works.

I am to request that my Lords may be favoured with your observations on the expression of opinion . . . as to the limits within which exceptions should be allowed to the rule of putting out works to competitive tender.

REVENUE DEPARTMENTS.

VOTE 1.—CUSTOMS.

Postponement of Payment.

16. The attention of your Committee has been drawn to a case in which a certain quantity of cloth was delivered under contract shortly before the expiration of the financial year, but the payment was postponed until after 1 April in the following financial year, on the ground that the payment for this service was provided under the Estimate of that year, so that if the payment for the cloth had been made in the year in which the cloth was delivered, it would in effect have relieved the Estimate of the following year, and thereby created a surplus on the particular subhead. Your Committee are of opinion that a breach has been committed of the rule strictly laid down by this Committee that payment for a service should always be made in the year in which it has matured and is due; and that the Comptroller and Auditor General was right to draw attention to it.

To the Commissioners of Customs and Excise.

I am to request that my Lords may be favoured with your observations.

VOTE 2.—INLAND REVENUE.

Income Tax not Levied.

17. The Comptroller and Auditor General reports that in the examination of the Isle of Man Accounts it was observed that income tax was not levied on interest received on loans to the open market, and that he had been informed that the Isle of Man is held to occupy the same position as foreign and colonial Governments who also receive untaxed interest in this country. It is urged that these Governments pay considerable sums in respect of interest on loans raised here, and any tax which might be imposed upon the receipts in question could be claimed as a set-off against these payments.

Income tax has not been levied on the allowances to officers of the Royal Irish Constabulary for the keep of a servant. The request of the

* *See* further P.A.C. 2, 1911, 5 at page 582.

Treasury to the Commissioners of Inland Revenue not to insist on payment does not appear to be supported by statutory authority, and your Committee are of opinion that the practice should be altered. Your Committee adopt the conclusion of the Comptroller and Auditor General that the practice of exempting funds from assessment ought not to be continued in the absence of statutory authority.

Having regard to the opinion expressed by the Committee, my Lords consider that the practice under which allowances to officers of the Royal Irish Constabulary for the keep of a servant have been exempted from assessment to income tax should be discontinued.

VOTE 3.—POST OFFICE.

Losses by Default; Statements of Principal Items.

18. Your Committee note that the Post Office, at the request of the Comptroller and Auditor General, furnished statements showing the principal items of expenditure under Subheads A and E, "Losses by Default," which have been appended to his Report. They are glad to know that in future these statements will be appended by the Post Office authorities themselves as in the case of the Navy, Army, and Inland Revenue Accounts.

Commission to National Telephone Company for Collection of Revenue, charged to Revenue.

23. The Comptroller and Auditor General drew attention to the fact that the National Telephone Company collects certain items of Post Office Revenue and is paid commission of 5 per cent. for collection, but that net receipts only are brought to account, the result being that revenue is charged with expenditure, which is for services rendered in the "collection and management of the Post Office." Your Committee are of opinion that this is inconsistent with Section 10 of the Exchequer and Audit Departments Act, 1866; but inasmuch as the Accounts for 1908–9 are just closing, while the Estimate for 1909–10 is before Parliament, and the whole service closes at the end of 1911, they recommend that the practice should be allowed to continue for the short remaining time; as they understand any alteration could only be made at some inconvenience, and a cost of time and money incommensurate with the result; but they are clearly of opinion that under the agreement the payment is made as a commission and not as the Company's share of a joint receipt earned by services performed partly by the Company and partly by the Post Office, and ought therefore to be charged to the Vote and not abated from Revenue.

GENERAL.

Payments for Overtime.

24. Your Committee have observed considerable amounts for overtime payments on several of the Votes, especially on some of the Irish ones. They desire to emphasise the importance of reducing such payments to a minimum, and to draw the careful attention of the Heads of Departments to the matter with a view to a considerable decrease in the practice.

My Lords drew the attention of the Heads of the Public Departments in Ireland in March and April last to the growth of expenditure on overtime employment in the several Offices under their control; and a

return showing the amount of such payments in those Departments in the financial year 1907–08 *was subsequently laid before the Committee. The importance of keeping overtime expenditure within the narrowest possible limits will be borne in mind when the Estimates for* 1910–11 *are under consideration.*

To the Under Secretary for Ireland:—I am to express the hope that His Excellency will impress upon the Public Departments under his control the importance of reducing such payments to a minimum.

THIRD REPORT, 1909. H.C. 126.

Treasury Minute, 10 *June* 1909.*

OLD AGE PENSIONS APPROPRIATION ACCOUNT.

Test Audit.

1. Your Committee have had referred to them by the Treasury the question of the audit of the accounts under the Old Age Pensions Act, and they agree with the conclusion which has been reached by both the Comptroller and Auditor General and the Treasury, that an efficient audit will be ensured and unnecessary expense avoided if the Account of the Vote is placed under Schedule B of Exchequer and Audit Departments Act, 1866—like those of the Navy, Army, and Revenue Departments—and if the payments before being rendered for audit have been allowed and passed by the proper Departmental Officers.

My Lords are giving directions for the necessary steps to be taken accordingly.

[*See Treasury Minute,* 31 *August* 1909, *at p.* 514.]

Power of Disallowance.

2. But a question of grave importance has been raised by the contention of the Treasury that since Section 7 (2) of the Old Age Pensions Act constitutes the Local Pension Committee (or upon appeal the Central Pension Authority) the final judges whether the conditions of a claim justify the grant of a pension, neither the Accounting Officer for the Vote, nor the Comptroller and Auditor General, nor your Committee, can recommend for disallowance any pension made under an Old Age Pension award. Your Committee are of opinion that this contention cannot be allowed to prevail; for they see no evidence in the Old Age Pensions Act that Parliament either intended to or in fact did repeal or render nugatory any part of the Exchequer and Audit Departments Act, 1866, and so deprived itself of the right of scrutinizing to the full the propriety of any payment made out of sums granted by Parliament, which would be the result if the interpretation of the Act by the Treasury were accepted as correct. The Exchequer and Audit Departments Act imposes upon the Comptroller and Auditor General the duty of ascertaining whether the money expended out of any Vote has been applied to the service for which it was intended to provide, and your Committee see no reason why, in the case of the Old Age Pensions Act, the question whether the primary conditions for the grant laid down by the Act have been fulfilled should be withdrawn from his audit and left to the discretion of a local body checked only by the power of appeal entrusted to a minor Government official, and Parliament so estopped from satisfying itself whether the money it has voted has or has not

* Appendix 16 to 1909 Reports, p. 804.

been rightly expended. Your Committee therefore desire to record their opinion:—

(*a*) That in respect of its appropriation every payment made under the Old Age Pensions Vote should be treated in the same way as payments under any other Vote of Parliament;

(*b*) That the duty and personal responsibility of the Accounting Officer for the Old Age Pensions Vote as such extend as well to the merits of an award as to the formality of the payments made under it;

(*c*) That the right and duty of the Comptroller and Auditor General to report to your Committee for disallowance as a charge against the Vote any improper payment are statutory and cannot be stopped or limited except by an express statutory decision of the House of Commons;

(*d*) That the power and duty of the Comptroller and Auditor General to report, and of your Committeee to recommend for disallowance, as a charge against the Vote, any improper payment, remain as complete in regard to the Old Age Pensions Vote as in regard to any other.

With paragraph (a) *of this opinion my Lords find themselves in entire agreement.*

Any payment made in pursuance of a statute out of moneys provided by Parliament is subject to the provisions of the statute regulating the payment, and any payment made otherwise than in accordance with such provisions is liable to disallowance as not being a proper charge against the Vote.

My Lords likewise agree (paragraphs (c) *and* (d) *of the Report) that the duties and powers of the Comptroller and Auditor General and of the Public Accounts Committee as regards any improper payments included in the Appropriation Account of the Old Age Pensions Vote are the same as their duties and powers with regard to improper payments included in the Appropriation Accounts of other Votes.*

As regards paragraph (b) *my Lords have before them an opinion of the Law Officers of the Crown that there is no procedure available, except the raising of a question before the Pension Committee in accordance with Section 7* (1) *of the Act and paragraph 17* (2) *of the Statutory Regulations, by which, when the time for appealing to the Central Pension Authority has elapsed, an erroneous decision can be rectified or a pension allowance revoked.*

The Law Officers further advise that the Treasury would not be justified, even though in possession of evidence that a person whose claim had been allowed was not entitled to a pension, in declining to pay the allowance except upon a decision of the Pension Committee (or, upon appeal, of the Central Pension Authority) to that effect, and that before the powers of the Treasury to recover (under Section 9 (2) *of the Act) can be put into operation, it is necessary that the fact that the pensioner is not entitled to receive the pension should be established by a decision of the Pension Authority upon a question raised in accordance with the above-cited subsection.*

It is also held by the Law Officers that such questions may be raised on the ground that the original decision was erroneous, as well as upon the grounds that the statutory conditions have ceased to be fulfilled or that disqualification has arisen since the award.*

The Act thus provides complete machinery for the correction of

* See, however, P.A.C. 2. 1911. 20 at p. 533.

*erroneous awards and for the recovery (under Section 9 (2)) of payments made thereunder.**

The awards are, however, binding upon the Treasury unless and until they are set aside by the competent tribunal, whose action neither the Accounting Officer nor the Comptroller and Auditor General has any power to over-ride, and the Accounting Officer cannot, in their Lordships' opinion, be held responsible for any payment which he is bound by statute to make, as being an improper payment, nor can such a payment be disallowed as a charge against the Vote.†

The Accounting Officer will, however, be responsible for seeing that the necessary steps are taken to recover any sums which, upon the decision of the Pension Committee (or, upon appeal, of the Central Pension Authority), on questions raised, become due to the Crown under Section 9 (2) and for payment of the amounts recovered into the Exchequer as an extra receipt or (when the necessary arrangements have been made for so treating them) for bringing them to account as an appropriation in aid of the Vote.

There remains the important question of the supervision to be exercised over Pension Officers in order to secure that questions may be raised in all cases in which prima facie *evidence of non-fulfilment of the statutory conditions or of disqualification may exist; and in this connexion the continuous scrutiny of the qualifications of existing pensioners is no less important than the examination of the original awards.*

Neither the Accounting Officer nor the Comptroller and Auditor General possesses the necessary facilities for making the complete and detailed inquiries—not only by the examination of documents but also by the prosecution of personal inquiry—which are clearly essential, and the responsibility for seeing that questions are raised whenever occasion arises must therefore, in their Lordships' opinion, rest primarily with the Board of Customs and Excise as the Department having the administrative control of Pension Officers, and steps are being taken to secure a complete departmental scrutiny of the manner in which Pension Officers discharge their duties in this regard.

The claims to pensions and the documents relating thereto are, however, under the Old Age Pensions Regulations returned to the Pension Officer after they have been adjudicated upon by the Pension Authority, and access to all such claims and documents will be given to the officers of the Exchequer and Audit Department.

It will therefore be open to the Comptroller and Auditor General to call attention to any case in which it may appear from such documents that a person to whom a pension has been awarded is prima facie *not entitled to the pension, with a view to a question being raised in accordance with the procedure prescribed by the Act and Regulations, and, in the event of its being found that the pensioner is not entitled to the pension, to the recovery under Section 9 (2) of the Act of the amounts paid, while he was not so entitled.‡*

Instructions will be issued to Pension Officers to give special attention to cases with respect to which questions may be raised by the Comptroller and Auditor General, and, in the event of the decision of a Pension Committee being unfavourable to such a question, the Pension Officer will be required to give notice of appeal to the Local Government Board and report the facts to this Board. Every such appeal will be

* In P.A.C. 8. 1910. 25. the Committee expressed satisfaction with the arrangements made for recovering overpayments and for bringing sums recovered to account. After the Committee had settled their report, the Financial Secretary to the Treasury stated in the House of Commons (on 28 April 1910) that recovery would be enforced only when deceptive or dishonest means had been used to obtain the grant of a pension.

† See also Fifth Report, p. 522.

‡ See note * on p. 512.

pursued to an issue unless my Lords are in a position to satisfy the Comptroller and Auditor General that the decision of the Pension Committee is correct.

APPENDIX No. 19 to REPORTS, 1909.

TREASURY MINUTE, 17682/09, 31 August 1909, on Audit of Old Age Pensions Vote:—

My Lords read section 29 of the Exchequer and Audit Departments Act, 1866 (29 & 30 Vict. c. 39) . . . House of Commons [*as paragraphs* 1 *and* 2 *of Minute of* 27 *March* 1899, *see p.* 424].

My Lords also read a letter addressed to them by the Comptroller and Auditor General, dated 10 March 1909, in which he expresses the opinion that in view of the fact that the payments of old age pensions under the Old Age Pensions Act, 1908 (8 Edw. 7, c. 40) will be checked by proper departmental officers, a detailed audit of the accounts would be unnecessary, and suggests that the accounts of such payments should be added to those specified in the above-mentioned Schedule of the Act.

My Lords note that the examination of these accounts is in the hands of the Board of Customs and Excise (prior to 31 March 1909, the Board of Inland Revenue) and the Post Office, to whose own voted expenditure the provisions of section 29 have already been applied by Treasury Minute of 27 March 1899, and they have satisfied themselves that the arrangements made by these Departments are complete and effective.

They are accordingly prepared to give effect to the proposal of the Comptroller and Auditor General, provided there be applied to the accounts in question an effective test examination, similar to that applied to the Departmental accounts above-mentioned.

They further learn that the adoption of this course is approved by the Committee of Public Accounts, appointed in the present session, whose attention has been specially drawn to the subject.

My Lords are now therefore pleased to direct that the Appropriation Accounts of the grants for the payment of old age pensions (Civil Service Estimates, Class VI., Vote 8) be forthwith added to Schedule B, and be regarded as an account specifically enumerated therein.

In pursuance of the powers vested in them by the 29th Section of the Act, my Lords are further pleased to direct that as regards the accounts of payments (chargeable against Subhead A of the Vote) in respect of pensions legally payable under the provisions of the Old Age Pensions Act there be a detailed test examination of such accounts similar to that applied to the Revenue Departments Accounts as described in Treasury Minute of 27 March 1899.

As, however, the same considerations are not equally applicable to the accounts of the Expenses of Administration (Subhead B) or to the accounts of any Special Payments authorized by them as charges against special Subheads to be opened in the Appropriation Account, they are pleased, in pursuance of the same powers, to direct that the accounts of all payments chargeable otherwise than against Subhead A shall, notwithstanding this Minute, be dealt with, as regards the detailed examination of vouchers and otherwise, in the same manner as the Appropriation Accounts of payments chargeable against Votes to which the said section has not been applied.

FOURTH REPORT, 1909. H.C. 156.

Treasury Minute, 21 December 1909.

NAVY APPROPRIATION ACCOUNT.

Contracts without Competitive Tenders, and Extensions of Contracts.

1. With reference to the First Report of the Public Accounts Committee 1907,* and the Third Report of 1908†, relating to Treasury sanction in cases of letting contracts otherwise than by competitive

* Paras 10 and 14, see pp. 487, 488. † H.C. 253/08, para. 2.

tender and extensions of contracts, the Comptroller and Auditor General reports that it has been agreed that the principle of competitive tender shall be recognized as the general rule, and that when in exceptional cases, such as the "Invincible," a departure from the rule is thought desirable, Treasury sanction shall be obtained. As regards extensions of contracts the Treasury have agreed to certain general rules under which power is to be reserved to the Admiralty of dealing with special cases within prescribed limits without reference to the Treasury on the understanding that competition will be the general rule and that departure from it will be regarded as justified in exceptional cases only.

As a similar question has arisen with regard to Army Contracts, and the views of the War Office have been laid before the Treasury in a letter dated 13 March 1909 (Appendix No. 13), your Committee propose to deal with the whole subject after hearing the evidence of the representatives of the War Office. [*See P.A.C.* 5. 1909. 17 *at p.* 521.]

Extract from Treasury Letter to Admiralty, 17 December 1908. (P.A.C. 1909, Appendix No. 8, p. 290.):—

The question under discussion is whether Treasury authority should be sought, and, if so, to what extent, in cases where it is proposed to depart from the principle of competition in any particular instance.

After a very careful review of the whole subject, my Lords do not think that it would be expedient that any procedure should be adopted which would relieve the Board of Admiralty from the entire responsibility which they have always had for the business of placing contracts, or that this Board could with advantage attempt to share that responsibility. So long, therefore, as it is clearly understood that the principle of competitive tender will be applied as the normal practice, my Lords are content that (with the exception mentioned below) the conduct of this branch of naval administration should remain, as heretofore, in the hands of the Board of Admiralty, subject to their responsibility to Parliament.

As regards the "exceptional cases" referred to in paragraph 2 of your letter, in which it is now agreed that Treasury sanction will be obtained, my Lords understand this procedure to apply to cases such as those of the "Invincible," where Parliament has been informed that the ship will be built by contract, and where it is considered necessary to place the contract without resort to competition.

Turning now to the subject of extensions of contracts my Lords regard these as on a different footing to original contracts. They think that there is more reason in such cases that reference should be made to this Board, and it has for some time been the practice of the Admiralty to make such reference in all cases in which it is proposed to place further work with a contractor who is on the ground rather than to invite tenders for such work in the ordinary course. In their letter of 30 August 1907 (C.N. 7915/07), the Board of Admiralty, however, proposed certain general rules under which power would be reserved to the Admiralty of dealing with such cases, within certain prescribed limits, without reference to the Treasury. My Lords did not feel able at that time to assent to such rules, but in view of the renewed representation of the Board of Admiralty, and after further consideration of the subject, they are now prepared to agree to their adoption, on the undertaking given that competition will be the general rule, and that departure from it will only be regarded as justified in exceptional circumstances. My Lords understand that the rules will apply to works and yard machinery.

The conditions, then, under which reference to this Board in the case of such extensions need not be made will be as follows:—

(1) The original contract must be the result of competitive tenders.

(2) The extension must not exceed 20 per cent. in value of the amount of the original contract.

(3) The rates must not be in excess of those in the original contract.

(4) The price must be considered fair and reasonable and not capable of reduction.

(5) There must be good reason for the proposed extension, such as saving of time and probably of expense, or necessity for securing uniformity of pattern in first equipment.

Information to Parliament in regard to Re-allocation of Voted Moneys.

5. Your Committee understand that on the question of informing Parliament as regards the re-allocation of voted money* the Treasury are of opinion that it is inadvisable to lay down any hard and fast rule on the subject, but that each case must be considered on its merits. The Treasury have agreed also that the principle should apply, not only to absolutely new services, but also to cases where there has been any great change in a service already approved.

Inter-departmental Payment for Land.

7. Under Subhead G, " Purchases of Land," the expenditure was £48,437 7*s.* 9*d.*, whereas the sum provided by Parliament was £5,000 only. Of this a considerable portion is accounted for by payments to the War Department for land transferred at Sheerness. Cash transactions of this character between Army and Navy Votes are contrary to the general practice, but your Committee are satisfied with the explanations given by the Treasury of their sanction in this particular case.

Statements of Liquidated Damages, etc.

10. Your Committee are informed that the Admiralty have come to an arrangement with the Treasury that in cases where actual loss accrues to the Crown through delay on the part of a contractor, they shall not waive liquidated damages if the amount of the loss is in excess of £50 without Treasury sanction.

STORE ACCOUNTS OF THE NAVY.

Thefts of Old Metal at Chatham Dockyard.

Independent Stocktaking.

12. In the summer of 1906, thefts of large quantities of old metal, the value of which was at least £840, took place from the Chatham Dockyard, and a Committee was appointed by the Admiralty to investigate the circumstances of the thefts, and to report upon the system of dealing with and accounting for arisings of old metal. . . .

Since the discovery of the thefts, three stocktakings of old metal have been held, and the Comptroller and Auditor General is in complete agreement with the recommendation made by the Departmental Committee that the question of strengthening the present system of independent stocktaking should be considered by the Admiralty.

Further, that Committee made various recommendations in regard to supervision and inspection in the yard, check upon absences, &c., all of which your Committee are informed have been carried into effect, and the revised regulations issued by the Admiralty to all the yards ought to go far to prevent the occurrence of such thefts in future. Your Committee are also informed that very severe disciplinary action has been taken with regard to all the officials concerned.

My Lords will expect to hear from the Board of Admiralty in due course as to any steps which may be in contemplation for strengthening the present system of independent stocktaking.

* See P.A.C. 1. 1906. 9 and Treasury Minute, p. 479.

Theft and Unlawful Possession of Government Stores.

13. The Comptroller and Auditor General reports that two cases have come under notice in which persons have been prosecuted for unlawful possession of Government stores, and your Committee has been assured that action has been taken by the Admiralty to observe proper precautions against misappropriations and to ensure surplus stores being dealt with in accordance with regulations. Your Committee have suggested to the Admiralty whether they could make more use of Inspectors under the Marine Store Dealers Act, or even appoint an inspector of their own under that Act.

With reference to the suggestion of the Committee as to the use of inspectors under the Marine Store Dealers Act as a precaution against the misappropriation of public stores, I am to inquire whether the Board of Admiralty are of opinion that such course would be desirable. [See P.A.C. 2. 1910. 7, at p. 523.]

FIFTH REPORT, 1909. H.C. 284.

Treasury Minute, 21 December 1909.

ARMY APPROPRIATION ACCOUNT.

SUPPLEMENTARY ESTIMATE.

Subheads on which Savings were anticipated not specified.

2. A Supplementary Estimate for a net sum of £100 was passed by the House of Commons on 20 February 1908, the gross expenditure provided for in the original Estimate being increased by £358,000 under two new subheads of Vote 5. As was the case in the Supplementary Estimate for 1906–7, these reductions were not ear-marked as arising on particular subheads.

Your Committee are of opinion that it is desirable that the savings on which a Supplementary Estimate is based should, if possible, be shown under the respective subheads, but on the other hand if this were done the savings would be lost sight of under various heads in the Appropriation Account, and the total would nowhere be shown.

In order to avoid this result your Committee think that steps should be taken, by a note or otherwise, to draw attention in the Appropriation Account to the principal subheads on which a saving has been effected.

My Lords expressed their views on this matter (from which they gather that the Committee do not now dissent) in Treasury Minute of 31 December 1908, on the Second Report of that year, and they desire that the suggestion of the Committee as to indicating the subheads mainly concerned by notes in the Appropriation Account may be considered on the next occasion of a Supplementary Estimate.

VOTES 8 AND 9 (AND ORDNANCE FACTORIES VOTE).

Advances to Contractors.

6. Your Committee are glad to hear that the War Office and the Treasury agree with your Committee's view that in the case of stores delivered but not inspected the correct course is to charge the advance payment not to the Vote but to the Contractor's personal account.*

My Lords approve of the principles and procedure with regard to this subject set forth in War Office letter of 21 April 1909, a copy of which was laid before the Committee.

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* See P.A.C. 2. 1908. 18 at p. 502.

WAR OFFICE LETTER TO TREASURY, 21 APRIL 1909. APPENDIX No. 15. —As a result of a prolonged discussion between this Department and the Treasury Solicitor [the Army Council] have arrived at the conclusion that it is impracticable to formulate conditions of contract governing the systematic payment and recovery of advances which would legally secure the interests of the Department without overloading the forms of tender to the eventual detriment of the Service.

2. Moreover, on full consideration of the question, they find themselves in cordial agreement with what they believe to be the view held now, as formerly, by their Lordships and by the Public Accounts Committee, that apart from payment by instalments, for which provision is made in contracts for certain classes of work, the making of advances should be restricted rather than constituted a regular feature of a Government contract system.

3. Broadly speaking, the advances to contractors made in practice fall into two classes; advances on goods delivered, prior to inspection and final acceptance for the service of the Department; and payments for work done, but not delivered, under the exceptional circumstances defined in paragraph 6 of the Fourth Report of the Public Accounts Committee, 1890,* viz., to enable the charge to fall upon the year in which Parliament has made provision for payment instead of lapsing to a year in which provision has not been made, and subject to the condition that " the work done and the materials used are capable of identification on the premises of the contractor, as having virtually become the property of the Crown."

4. The questions which arise in connexion with advances of either class are also two: the charge of interest to the contractor, and the mode of record in the books of the Department.

5. As regards the former, it has always been admitted (*see* paragraph 7 of the Report quoted) that interest can fairly be claimed only when the advance is made in the interest of the contractor, without the existence of any default or delay on the side of the Department. The Army Council are prepared to make the payment of interest at the current Bank rate a condition of any advances exceptionally made at the request of the contractor. They do not, however, consider it desirable to encourage such loans of public money, and would deprecate any allusion to them in contracts.

6. As regards special advances made, not at the request of the contractor, but for public convenience†, they feel that any stipulation that contractors should be compelled to receive payments at a rate of interest, which might happen to be very onerous, would in the end operate to the disadvantage of the public in the terms offered by contractors.

7. As regards the method of record, they are prepared to agree with their Lordships and the Public Accounts Committee that the correct course in dealing with advances on stores delivered and under inspection is to charge the payment to the contractor's personal account. This procedure will be followed in future, only such special payments for work done on the contractor's premises as may be found necessary for financial reasons at the close of the year being charged to the Vote, in accordance with paragraph 6 of the Fourth Report of the Public Accounts Committee of 1890.

8. The Army Council believe that their views are in entire accordance with those of the Treasury and the Public Accounts Committee, and are acting accordingly, pending their confirmation.

VOTE 10.—WORKS AND BUILDINGS.

New Form of Estimate.

9. The Accounting Officer of the War Office has submitted to the Committee a new form of estimate for Vote 10 reducing the number of subheads (as was done in 1905 in the case of the Navy Works Vote) with a view to better administration and to avoid the great variation

* See p. 255. † For later discussion see P.A.C. 2. 1924. 13 at p. 674.

which has so long existed on this Vote between the estimate and actual expenditure. Your Committee approve of the proposed alteration.

The Committee approve of the proposed alterations in the form of estimate for Vote 10, *and my Lords sanction their adoption in the ensuing year. My Lords trust that they will lead to the improvements and economies in administration anticipated by the Army Council in their letter of* 6 *May* 1909 (10/1176), *submitting the proposals.*

WAR OFFICE LETTER TO TREASURY, 6 MAY 1909, FROM APPENDIX 17 TO REPORTS, 1909.—I am commanded by the Army Council to acquaint you for the information of the Lords Commissioners of His Majesty's Treasury, that for some time past they have had under consideration the unsatisfactory results shown by the actual expenditure under the Works Subheads of Vote 10 as compared with the Estimates.

As their Lordships are aware, the present position is that Works Services are estimated for under three main groups (Parts I., II., and III.), each of which is subdivided into three distinct Subheads of the Vote (Fortifications and Artillery Ranges, Ordnance Buildings, Barracks). For purposes of Treasury control each of these separate Subheads, in the case of Part II. and Part III. Services, is further subdivided under two heads, Home and Colonial; while under Part I. each individual service is treated as a distinct item for purposes of estimate and account. In each such item (under Treasury letter of 30 December 1898, No. 19605) Treasury sanction is required for any excess beyond 10 per cent. on small and 5 per cent. on larger services, not only on the total estimate for the work, but also on the amount provided for the work in any particular year. This last stipulation is found in practice largely to increase the difficulties of administering the system.

The Army Council do not suggest that their Lordships' control is in any way unreasonably exercised; but the present numerous limitations would make it impossible to secure the desired elasticity without multiplying applications to the Treasury, and, however promptly these were dealt with, the necessity of making them would give rise to delay at a period of the year when days are important. The impossibility, in the case of building operations, of forecasting accurately some fifteen months in advance the amount that will be paid in any one year on any individual service will be readily realized, more especially in the case of large services (which have latterly increased in number owing to the winding up of the Military Works Loan). It should, however, be possible, if some of the checks referred to were removed, and the Works Subheads of the Vote administered in fewer separate compartments, to secure a closer approximation between the totals of estimated and actual expenditure. For while it will always happen that unforeseen delays will prevent the expenditure of the full sums provided for certain items, there are generally others which have progressed smoothly, on which the surpluses can advantageously be spent.

In this connexion I am to refer you to previous correspondence ending with your letter of 6 September 1901, No. 13436, from which it will be seen that their Lordships were willing at that time to consider favourably proposals for further simplification, provided that the powers vested in the Treasury in regard to transfers between Subheads of the Estimates generally should remain inviolate. In that correspondence, as their Lordships will recollect, General Officers Commanding were authorized, in the case of a Part I. Service, to incur an excess on the provision for the year (but not on the total estimate), provided that such excess was counterbalanced by savings in the year on other Part I. Services within the same Command. It is by an extension of this power to the War Office, with its application between all Commands, whether at Home or Abroad, and without distinction between Fortifications, Army Ordnance Buildings, and Barracks, that the Army Council consider that increased efficiency in administration without the sacrifice of any useful control will most readily be secured.

In order that this proposal may not involve the transfer, without Treasury authority, of sums between different Subheads of the Vote, it is proposed to remodel the form of the Estimate on similar lines to those of Navy Vote 10, under which no separate Subheads exist for items relating to Barrack Buildings, Storehouses, and other services respectively.

The Army Council propose, accordingly, if their Lordships approve, (1) to reduce the number of Subheads dealing with Works Services proper from nine to three, viz., Parts I., II., and III., retaining as items only the further sub-divisions of Fortifications, Army Ordnance Buildings, and Barracks; and (2) to administer each of these three Subheads as a whole, provided always that the present rules relating to an excess on the approved total estimate for any individual Part I. Service remain undisturbed.

The Council are convinced that these changes will lead to a considerable improvement in administration, will tend to obviate the constantly occurring large surpluses on Vote 10, and will conduce to more rapid progress of work, with resultant economy in supervision and in other ways. They will also have the advantage of doing away with a number of letters which, under present arrangements, have to be written to the Treasury whenever it is found necessary under Parts II. or III. to transfer small sums from one sub-division to another—letters which their Lordships will recognize as being of a purely formal type. Moreover, the simplification of administration should lead to progress being made with Works Services earlier in the financial year, and so diminish the hitherto constant congestion at the end of March, the evils attending which are well known.

At the same time, they submit that these proposals involve no real loss of control on the part of their Lordships, inasmuch as their sanction will still have to be obtained before (i.) any excess on the total of a Subhead is incurred, (ii.) any excess (not covered by present rules) is incurred on the approved total estimate for any individual Part I. Service, or (iii.) a start is made with any new Part I. Service which has not been authorized by Parliament.

Finally, I am to explain that it is not contemplated in any way to diminish the amount of information now given to Parliament; the same details will continue to be furnished in the Estimates, and full explanation of excesses or surpluses on individual items will as hitherto be given in the Appropriation Accounts.

Having in view the fact that some alteration of the form of the Estimate for Army Vote 10 is involved, the Council presume that the Public Accounts Committee should be consulted before the changes are finally approved; and they trust that their Lordships will feel prepared to recommend them to the favourable consideration of that Committee during the present Session, with a view to their adoption in the Estimates of 1910-11.

Store Accounts of the Army.

Stores in Reserve Depots: Form of Certificate.

11. In reference to paragraph 23 of their Second Report of last year,* your Committee observe that no stock valuation of stores, clothing, and consumable stores has been furnished for the year under review, but the Army Council propose that in future years the following certificate shall be given to them by the Quartermaster-General and Master-General of the Ordnance as the members of Council responsible for the administration of the stores of the Army, and be printed for the information of Parliament as one of the Papers published with the Army Appropriation Account:—

"We certify that on the 31st day of March 19 the authorized "war reserves of stores, for the provision and maintenance of

See pp. 502-3.

" which we are respectively responsible, were in all respects com-
" plete (with the exception of temporary deficiencies of the
" aggregate value of £)."

Your Committee understand that the war reserves are not identical with what is known as the Mowatt reserve,* though broadly there is a correspondence between the two. Your Committee further understand that the Army Council propose to give to the Comptroller and Auditor General a confidential statement showing the exact quantity of each item in store which is directed to be held as a war reserve, and a distribution statement showing in what storehouses the stores are alleged to be, and that he will be able to report to your Committee any deficiency that may exist. This arrangement and the certificate seem alike satisfactory.

ARMY CONTRACTS.

Competitive Tenders: War Office Responsibility.

17. Your Committee dealt in their [Fourth] Report [*para.* 1, *see* p. 514] with the agreement arrived at between the Treasury and the Admiralty with regard to the inception of contracts of large amounts and the extension of contracts already entered into. Since then, the War Office have put forward a different view in Appendix paper No. 13. That contracts should be placed by competitive tender, as the normal practice, has been common ground to all who have taken part in the discussion, but the Army Council, while anxious to make it clear that they are not in any way withdrawing from the control of the Treasury their action in any portion of the sphere of finance in which by statute and by custom the Treasury is supreme, maintain that the only real safeguard for a proper administration lies in the complete and undivided responsibility of the Administering Department, to be answered for in the last resort by Ministers in Parliament; and they believe it to be fundamentally wrong to weaken the sense of that responsibility by permitting a Department in any way to shelter itself behind Treasury authority. At the same time they recognize the desirability of so altering the procedure within the Department as to bring into prominence the direct responsibility attached to anyone who authorizes a departure from the accepted normal course of competition. They believe that these objects will be attained by requiring that the personal authority in writing of the supreme head of the Department shall be obtained before any important contract is placed or extension made without competition, and that this authority shall be communicated to the Comptroller and Auditor General.

Your Committee are informed that the Treasury are on the whole not disinclined to fall in with that proposal, and as the plan seems to your Committee to meet the requirements of the case, they consider that a fair trial should be given to it.

The Committee state that the plan proposed by the Army Council in their letter of 13 March 1909 *(Appendix paper No.* 13*) for dealing with cases where contracts are placed without competitive tender appears to them to meet the requirements of the case, and they consider that a fair trial should be given to it. In these circumstances my Lords assent to the proposals contained in that letter, and they will await the submission of a definition of the cases to be authorized in writing by the Secretary of state and the Financial Secretary respectively.* [See P.A.C. 2.1910.20 at p. 526.]

* See Recommendations of the Interdepartmental Committee, 1900, on the Reserves of Guns, Stores, &c., required for the Army, Cd. 1908, presented 1904.

MILITARY WORKS ACTS ACCOUNTS.

Losses incurred owing to Changes of Policy.

19. Your Committee having drawn attention to this subject, the Army Council put forward the view " that the policy under which the " money has been expended in accordance with the decision of Parlia- " ment is not subject to review as a matter of Account, and that as a " general rule the Account Records of the Department do not furnish " such information as would enable a correct judgment to be formed " upon the economic results of that policy "—a statement from which your Committee do not differ. The Army Council, however, in order to afford Parliament such information as is possible, propose that, in the case of any sale of land or buildings realizing over £1,000, an addition be made to the Statement of Sales already given in the Appropriation Account showing the date of purchase or construction, and the cost, provided the date be sufficiently recent to enable the necessary particulars to be ascertained without troublesome research. The Treasury concur in this proposal, and your Committee approve of its adoption.

THE COMPTROLLER AND AUDITOR GENERAL AND THE OLD AGE PENSIONS ACT.

20. As the Third Report of your Committee and the Treasury Minute thereon disclosed a difference of opinion as to the construction to be placed upon the application of the Exchequer and Audit Departments Act to the Appropriation Accounts of the moneys provided by Parliament for the payment of pensions under the Old Age Pensions Act, the Treasury submitted a case to the Law Officers of the Crown upon the points at issue.

21. Your Committee understand that the Law Officers of the Crown are of opinion that the allowance of a pension by the Pension Authority makes such payment in respect thereof a proper charge against the Vote for Old Age Pensions, so long as the allowance remains operative, and that such charge is not liable to be set aside by the Accounting Officer for the Vote, or by the Comptroller and Auditor General, or by any other authority on the ground that the decision of the Pension Authority was erroneous.*

22. This opinion is contrary to the view taken by your Committee in their Third Report, and if it is accepted as the true interpretation of the Old Age Pensions Act it becomes clear that the Act sets aside (without express provision and, as your Committee hold, without the intention of Parliament) the statutory duty of the Comptroller and Auditor General under the Exchequer and Audit Departments Act of investigating on behalf of Parliament the conformity of a payment with the intentions of Parliament in making the grant; and that Parliament has in fact estopped itself from following up payments under the Act by setting up an authority other than itself as to the proper disposal of moneys granted by it.

SECOND REPORT, 1910. H.C. 125.

Treasury Minute, 30 November 1910.

NAVY APPROPRIATION ACCOUNT.

VOTE 8, II.—SHIPBUILDING; MATÉRIEL.

Sale of Ships.

3. In accordance with the recommendations of the Fourth Report of this Committee of 1909, paragraph 4, the Admiralty have included in the list of ships sold in 1908–9 a statement giving the value of the gun mountings and other fittings removed from the ships prior to sale.

* See, further, P.A.C. 2. 1911. 20 at p. 533.

The Admiralty have also furnished a statement of the principles upon which they act in effecting sales of ships, and more particularly as regards the conditions of breaking up. These have received the sanction of the Treasury and are approved by your Committee. (*See* Appendix No. 5 to this Report.)

VOTE 10.—WORKS.

Classification of Fixed Contributions paid to the War Department for Joint Services.

4. The arrangement with regard to the division between the Army and Navy Votes of the cost of Joint Works Services has been carried a stage further in the Navy Accounts, and it is now arranged that in future the fixed sum provided by the Admiralty will be charged in its entirety to Navy Votes 8 or 10, whichever is mainly affected.

Your Committee approve of the arrangement as acting fairly between the two Votes in the long run and obviating the keeping of troublesome and expensive accounts.

Note.—The arrangement referred to by the Committee was thus described in para. 30 of the Comptroller and Auditor General's Report on the Army Appropriation Account, 1907–8:—"In the case "of services to provide joint accommodation for the Navy and "Army it has been the practice, hitherto, for the Department not "executing the work to repay an agreed proportion of the actual "cost, but in the case of services to re-provide accommodation "handed over by one Department to another, the repayment has "taken the form sometimes of a proportion of actual cost and some-"times of a fixed contribution.

"It has now been agreed, between the two Departments and the "Treasury, that the repayment shall in all cases take the form of a "sum fixed in advance, on the basis of the estimated cost of the "service, any variation between estimated and actual expenditure "falling wholly on the Votes of the Department executing the work. "In cases where services extend over two or more years the repay-"ment each year will be in proportion to the expenditure of that "year."

VOTE 11.—MISCELLANEOUS EFFECTIVE SERVICES.

Subhead G.—Compensation for Damage done by H.M. Ships.

5. Your Committee note that under this subhead payments amounting to £7,093 4*s.* were made for compensation in respect of damage done to colliers while coaling His Majesty's ships; an amount considerably in excess of recent years. They are informed that the attention of Officers commanding His Majesty's ships has been drawn to the necessity of exercising the greatest care while coaling; and they are of opinion that in future a note should be appended to Subhead G, Vote 11, giving the amount of compensation for damage done to colliers.

My Lords concur in the suggestions of the Committee.

STORE ACCOUNTS OF THE NAVY.

Theft and Unlawful Possession of Government Stores.

7. In their Report for last year your Committee suggested to the Admiralty whether they could make more use of the Marine Store Dealers Act, or perhaps appoint inspectors of their own. An inspector has now been appointed experimentally at each of the three principal Naval Ports to assist the investigation of cases of misappropriation, and the system will be carefully watched to see whether due results are obtained from it.

Certificates of Stocks in Reserve.

9. With regard to the suggestion of your Committee that the Admiralty might furnish a certificate on similar lines to that given by

members of the Army Council, your Committee now learn that the same conditions do not apply to the Navy, and that as, with the exception of a few special cases, there is no separate war reserve such as can be earmarked and separately stored, such a certificate could not be given by the Admiralty. They therefore propose to continue to furnish the statements of values of stores under the various Votes which are used for administrative purposes. Your Committee approve, subject to the further inquiries being made by the Treasury.

In the Minute of last year my Lords raised certain questions as to the valuation statements appended to Votes 2, 8, 9, and 10 of the Appropriation Account. The Committee have now approved of the proposal that these figures should continue to be furnished in preference to a certificate, and my Lords are satisfied, for the reasons given in Admiralty letter of 11 March last (printed as Appendix No. 5 of the Committee's Report), that no advantage would be gained by making any change in the statements as they appear under the respective Votes.

Naval Works Acts Account.

11. This account is now closed, the total expenditure against Loan Funds amounting to £27,352,000. Any outstanding services are being completed on Navy Votes, and for the purpose of continuity your Committee are of opinion that a statement should be appended annually to the Appropriation Account showing the total expenditure both out of Loan and Vote, as compared with total estimate.

My Lords concur in the recommendation of the Committee that, now that the Loan Account is closed, a statement should be appended annually to the Appropriation Account showing the total expenditure both out of Loan and Vote, as compared with total estimate, in the case of loan services under completion out of voted moneys. This would be in continuation of the statement appended to the annual Loan Account.

Losses owing to Contractors' Delays.

12. Your Committee are glad to learn that the Admiralty have now made arrangements that in cases where works are let to more than one contractor, each contractor is liable for damages incurred in consequence of his delays by another contractor.

Dockyard Expense Accounts.

Large Repairs: Variation between Original Estimates and Actual Cost.

15. In consequence of the difficulties of estimating for large repairs to ships many months in advance, and of the ships not being available for survey in many cases, your Committee recommended last year that "for the future in such cases where the refit extends into two financial "years, a lump sum provision on account should be [taken in the "first year, and the total cost of the service should be] included in the "estimates of the following year, as is done in the case of New Con- "struction." They are informed that the Admiralty has accepted the recommendation and that in future estimates their proposals will be followed.

My Lords sanction this proposal, under which, in cases where it is necessary to make provision in the Navy Estimates for carrying out large repairs, &c., to a ship for which the requirements are not fully known, the provision will be regarded as approximate only, and the remark "Details not yet complete" inserted in the Estimates in which the provision first appears—a complete statement of the estimated cost to be furnished in the Estimates for the succeeding financial year if full particulars are then available.

PARLIAMENTARY CONTROL.

Accounting Officers.

18. Some doubt having arisen as to the relation between the Accountant-General of the Navy and Naval Accountant Officers, it has been explained to your Committee that those Officers have full right of access at all times, through the recognized channels, to the Accountant-General of the Navy, and have full power of communicating to him their doubts as to the propriety of any payment they may be ordered to make. Such representations must for disciplinary reasons be forwarded through the Captain of the ship, who has, however, distinct pecuniary responsibility in regard to his action. In this connexion your Committee desire to make it clear that though the circumstances of the Navy are in some respects exceptional, the principles laid down in the First Report of the Public Accounts Committee of 1905 apply to all the Services, viz. . . . (*see First Report* 1905, *para.* 30, (1) *to* (4), *printed at p.* 471).

My Lords are in full agreement with the Committee as to the financial responsibility of the chief Accounting Officer, but for the reasons given in the statement handed in on behalf of the Admiralty (printed as Appendix No. 7 of the Committee's Report) they do not consider that it would be possible to provide, under Naval conditions, for the chief Accounting Officer having "authority over and responsibility for all Sub-Accounting Officers." But the powers of Executive Officers to authorize expenditure are closely guarded by regulation, and the accounts of expenditure so authorized are examined at headquarters by the chief Accounting Officer, who corresponds directly with the Executive Officers, and less formally with the Paymasters, on questions arising on the accounts. Such examination would under the regulations result in disallowance against the Executive Officer of any excessive or improper expenditure authorized by him. My Lords have no reason to doubt that this system, while it meets the conditions of a Fleet, provides for the proper control of payments, and their subsequent allowance by the Accountant-General only after due examination by him.

ARMY APPROPRIATION ACCOUNT.

Parliamentary Control.

19. The attention of your Committee has been drawn to the reorganization of the Army Accounts Department. It seemed from the terms of the Royal Warrant and the Army Order founded upon it that due precautions had not been taken for the maintenance in the case of the reconstituted Army Pay Department of the conditions of Parliamentary control, as laid down by your Committee in their First Report of 1905. The fresh Regulations, however, which have since been issued appear to be adequate, but your Committee are of opinion that the embodiment of such matters in Departmental Regulations is not sufficient, but that the points in question should be promulgated in Army Orders which have a wider circulation and would more readily come under the cognizance of Parliament and your Committee.

In consenting to the reorganization of the Army Accounts Departments in 1909, *under which the Army Pay Department (which had been merged in the Army Accounts Department in* 1905) *was reconstituted, my Lords satisfied themselves that no change was being made which might have the effect of impairing the financial responsibility of the chief Accounting Officer in accordance with the recognized principles for securing Parliamentary control over expenditure to which*

the Committee refer. With regard to the method of promulgating the instructions for giving effect to these arrangements, the Army Council will observe that, while the Committee consider that the Regulations which have been issued appear to be adequate, they are of opinion that the points in question should be promulgated in Army Orders. My Lords have caused the Regulations to be examined, and they find that they involve no departure from the principles embodied in Army Order 150 of 1 August 1905, which the Committee have in mind. It was presumably for this reason that neither these Regulations nor the Army Order 294 of 1 November 1909 as to the reorganization of the Army Accounts Department were submitted for the concurrence of this Board, as was done in connexion with the formation of the Department in 1905 (War Office letters of 19 April and 26 July 1905). In view, however, of the important change in organization which was being made my Lords would have preferred that the same course should have been followed as on the previous occasion.

Contracts without Competitive Tenders.

20. As suggested by paragraph 17 of your Committee's Fifth Report of last year* in reference to Army Contracts where competition is dispensed with, it has now been proposed by the War Office that new orders if exceeding £200 should be approved in writing by the Financial Secretary, and if exceeding £10,000 by the Secretary of State; and your Committee understand that this arrangement is likely to receive the concurrence of the Treasury.

My Lords approve of the rules submitted by the Army Council in their letter of 4 March last (12/Miscellaneous/242) for the authorization of contracts (other than purchases of experimental stores) in cases where competition is dispensed with, viz.:—

New Orders.—*If exceeding £200 in value to be approved in writing by the Financial Secretary, and if exceeding £10,000 by the Secretary of State.*

Extensions (Works).—*If more than £200 in excess of the limits of the original contract, to be approved by the Financial Secretary. If the extension beyond the limits of the original contract amounts to £5,000, or is priced at a higher rate, or competition was dispensed with in placing the original contract, the written authority of the Secretary of State to be obtained.*†

VOTE 8.—SUBHEAD C. BARRACK STORES.

Explanations of Variations from Estimate.

25. A large surplus of £15,000 on this subhead is stated in the note to the Appropriation Account to be accounted for by delays in contractors' deliveries, a fall in the price of certain articles, and an overestimate of local expenditure. Your Commttee are of opinion that where various causes contribute to a surplus or excess it would be an advantage if the approximate amounts due to the several causes could be given in the explanations.

VOTE 10.—WORKS AND BUILDINGS.

Triennial Contracts.

26. In reference to paragraph 7 of the Fifth Report of your Committee last year it is stated that this matter is still under consideration, but your Committee trust that a settlement will shortly be reached.

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* See p. 521.

† New limits were fixed in 1921, see P.A.C. 8. 1921. 106-8, at p. 688.

By letter of 23 September 1910 (15680), my Lords have signified their concurrence in the arrangements proposed by the Army Council, to come into effect from 1 April 1911, as regards the maintenance of War Department buildings in the United Kingdom, under which at the stations where the expenditure is small repairs will be carried out by orders on local tradesmen, competition being resorted to whenever work amounting to £25 or over accumulates, and at the bulk of the stations where triennial contractors are engaged the limit for work given to such contractors will, subject to an emergency, be £300, except at the twelve larger stations specified, where the limit will be £500.

As regards the question of breaking up of services so as to bring them within the compass of a triennial contract which has been before the Committee, the Army Council state that they are not prepared to admit that there has been any such practice. But my Lords are glad to observe that the Council are in entire agreement with the Public Accounts Committee and this Board in considering that a service which exceeds in the aggregate the limit of the triennial contract should be put up to competition when the exigencies of the public service and the legal rights of the contractor under his covenant admit of it.

*My Lords await the conclusions of the Council as to contracts to meet the requirements of the Ordnance Factories.**

STORE ACCOUNTS OF THE ARMY.

Deficiencies of War Reserves.

31. The question has arisen as to the treatment, for the purposes of the certificates, of new classes of war stores, where the full equipment of reserves has not been completed.

It rests with the Army Council to say when they will lay down a reserve but it appears to your Committee that, if it has been laid down, a shortage from the authorized quantity of an article which has never actually been completed should be shown as a deficiency in the statement furnished to the Comptroller and Auditor General and covered by the above certificate. The alternative would be not to lay down items as part of the reserve until they are in existence. For instance, if the Army Council have laid down that there should be 20 balloons, of which 10 should be in reserve, and there were only 10 in existence, it should not be shown in the account as a deficiency in the reserve of 10 balloons, but no reserve should be put down at all. It must be borne in mind that as regards the authorized establishment of war reserves, the nature and amounts are technical questions determined on the authority of the Army Council, and any test by the Comptroller and Auditor General is therefore limited to the verification of the store record of what is stated to constitute a reserve.

Concealment of Surplus Barrack Stores.

32. In the course of the test verifications of stock carried out by the Army Accounts Department cases of concealment of surplus Barrack Stores were detected at seven stations, and your Committee are impressed with the importance of its being made quite clear to Officers in charge of Barracks that a thorough supervision must constantly be exercised to prevent such irregularities.

* To meet the requirements of the Ordnance Factories, the Army Council proposed, and the Treasury agreed, that the limits should be £700 in the Woolwich Manufacturing District and £500 for Waltham, Enfield, and Pimlico (P.A.C. 1911 Q. 2581).

THIRD REPORT, 1910. H.C. 144.

Treasury Minute, 11 December 1910.

CIVIL SERVICES AND REVENUE DEPARTMENTS.

CLASS I., VOTE 14.—PUBLIC WORKS AND BUILDINGS, IRELAND.

Contracts: Release of Retention Money.

9. The attention of your Committee has been drawn to cases in which part of moneys retained under contracts had in some instances been paid over before the work was completed, a practice which they think ought only to be resorted to in very exceptional cases, and subject to the condition that in every instance sufficient retention money should be kept back to meet contingencies.

My Lords concur in the opinion of the Committee, and I am to request that the future procedure of your Board may be governed accordingly.

CLASS III., VOTE 5.— PUBLIC TRUSTEE.

14. Owing to the rapid growth of the business of this Office, it has not yet been practicable to decide upon the form which the more permanent arrangements for administration and account should take. The Treasury have, therefore, directed the Comptroller and Auditor General to apply on their behalf a fairly complete test audit to about 10 per cent. of the Trust Accounts of the Public Trustee, including a test verification of securities, leaving the question of the final shape of the audit to be settled later. The audit applied in the year under review has been of a similar character, but your Committee are of opinion that steps should be taken to ensure that an annual statement of account is duly forwarded to the persons concerned in every Trust.

15. Your Committee would draw attention to the fact that the Public Trustee has, under the Public Trustee Act, but subject of course to the investment clauses of the various trusts, sole and unchecked discretion in the investment of very large sums of money.

My Lords request that they may be favoured with your observations upon the remarks made by the Committee.

CLASS IV., VOTE 8.—PUBLIC EDUCATION, SCOTLAND.

Grants in respect of Closed Schools.

17. It appears that, in respect of certain Edinburgh schools which were taken off the Grant List on 30 June 1907—the end of the school year—the full grant earned, £611 2*s.* 2*d.*, had been paid. According to the terms of Article 32 (*e*) of the Code, the grant payable in respect of a closed school shall not, " as a rule," exceed the amount of the net outstanding liabilities on current account at the time of its closing. The total of such liabilities was £318 9*s.* 2*d.*, which was accordingly paid, and the Department in the first instance refused to pay any grant earned in excess of this sum, but, upon further representations, the excess, namely, £292 13*s.*, was subsequently paid, although prior to such payment the Department had been informed that it was proposed that this balance should be utilized to defray the cost of certain religious instruction incurred in connexion with the training of teachers in various schools. It seems to the Committee that this payment was improperly made, and should be disallowed.

18. The attention of your Committee was drawn by the Comptroller and Auditor General to the somewhat similar case of another school also closed within the meaning of Article 32 (*e*) of the Code, to which was issued the earned grant amounting to £92 3*s*. 7*d*., notwithstanding that the school accounts showed a balance in hand of £92 11*s*. 4*d*. It was argued before your Committee that this sum might be regarded as an accumulation of Trust Funds and not part of the grant, and therefore not subject to the limitation of Article 32 (*e*). But there appears to be no warrant for treating the general school account or its balance as other than one whole in their subjection to the regulations; nor does it appear that the option given by Article 32 (*e*) of payment of the whole grant notwithstanding the limitation to the amount of the liabilities, could properly be extended to subsidizing a school which has become a closed school on account of defective premises. Your Committee are therefore of opinion that the payment of £92 3*s*. 7*d*. was improperly made and should be disallowed.

My Lords concur with the Committee in regarding the payments of £292 13s. to certain schools in Edinburgh, and of £92 3s. 7d. to a school at Fraserburgh, as not properly chargeable against the Vote for Public Education (Scotland). They are therefore directing the total sum of £384 16s. 7d. to be further surrendered by writing off that amount from the Grant for Public Education (Scotland) 1910–11.

This sum will stand charged against the Accounting Officer for the Vote pending recovery or the consideration by this Board of any proposals which the Lords of the Committee of the Council on Education in Scotland may have to make for dealing with the matter.

CLASS V., VOTE 2.—COLONIAL SERVICES.

Audit of Accounts of Grants in Aid to Colonies.

Colonial Audit Department Established at Colonial Office.

20. The statutory duty of the Comptroller and Auditor General, in regard to Grants in Aid, is ordinarily confined to seeing that the Accounting Officer of the Vote, out of which such grants are provided, is entitled to claim credit for his payments by producing receipts from the grantees in support of such payments. As, however, the Comptroller and Auditor General has, at the request of the Secretary of State, for some years past examined in detail the accounts of such Colonies and Protectorates at the expense of the Colonies and Protectorates themselves, his examination has been accepted as covering also the audit of the application of the grants required by Parliament. It is now proposed that that branch of the work should be undertaken by a special department under the Colonial Office, and the work of the Comptroller and Auditor General confined to his statutory duty, which does not necessarily involve a detailed examination.

21. Your Committee is satisfied that the proposed organization of the "Colonial Audit Department," which will be independent of the local Executives, is such as should provide an effective and convenient service, and is therefore agreed that the Comptroller and Auditor General should accept the certificate of the Head of that Department in support of the accuracy of the details of the accounts of the Colonies rendered to him by the Accounting Officer of the Vote for Colonial Services, in respect of the proper application of the Imperial Grants in Aid to the local expenditure of the Colonies. But it must be provided that any information that may be required by the Comptroller and Auditor General from time to time will be fully and completely furnished on his requisition,

and that should he so desire at any time it would be competent for him to apply a supplementary examination to any portion of the accounts. It is also desirable that to all such accounts, the Accounting Officer should, as in the case of Appropriation Accounts of Army and Navy Expenditure, append certificates declaring that all expenditure including amounts in support of which authority beyond that of the Colonial Office is required has been so authorized.

As regards the audit of Colonial accounts so far as they relate to the proper application of Imperial Grants in Aid to the purposes for which they were granted, I am to observe that the conditions laid down by the Committee appear to my Lords to be fully secured by the arrangements which have received their approval.

CLASS VI.—VOTE 3.—HOSPITALS AND CHARITIES, IRELAND.

Suggested Reduction of Grants.

22. Your Committee notice that the Report of the Board of Superintendence of the Dublin Hospitals, 1908–9 (Parliamentary Paper Cd. 4827), gives the total receipts of these institutions as £63,493 9*s.* 11*d.*, whereas the total expenditure, including an investment of £2,100, amounted to £56,766 6*s.* 2*d.*, which seems to suggest that the amount of the grant should be reconsidered.

The grants at present made are (except for certain transfers to other Votes) in accordance with the recommendations of the Select Committee of 1854* *as modified by those of the subsequent Commission of* 1855.†

It appears that the Select Committee of 1854 *referred as a reason for these grants to the fact that, at the time of the Reformation, the monastic property in Dublin, from which the poor had derived great benefit, was sold for the advantage of the Crown, and that some of the hospitals have received grants of public money from far back in the* 18*th century.*

The general effect of the arrangement made after 1855 *was to increase the aggregate amount of the grants by a few hundred pounds, and to make them fixed instead of fluctuating.*

Following upon the inquiry of a Vice Regal Commission whose Report was presented to Parliament in 1887,‡ *a Bill was introduced in* 1889 *by the Government of the day for consolidating, reducing, and revising the grants, but was withdrawn in consequence of the opposition which it encountered from different quarters of the House.*

Looking at the history of these grants, my Lords are of opinion that the matter is one which would be dealt with more appropriately by legislation than by reduction (without previous statutory provision) of the customary grants from voted moneys.

I am, however, to invite His Excellency's observations on the subject.

CLASS VI., VOTE 5.—OLD AGE PENSIONS.

Excess Expenditure irregularly defrayed from Post Office Balances.

24. The Comptroller and Auditor General reported that on 28 February 1909 the expenditure on Old Age Pensions amounted to £1,269,531 11*s.* 9*d.*, being £69,531 11*s.* 9*d.* in excess of the sum at that time voted by Parliament. In the ordinary course this would have been met by a temporary loan from the Civil Contingencies Fund, in anticipation of subsequent provision. As, however, the balance on the

* H.C. 338/1854. † Command Paper 2063, presented 1856. ‡ C. 5042.

Civil Contingencies Fund was only £65,114, the excess expenditure was defrayed out of moneys in the hands of the Postmaster-General. It is conceded that use of such moneys was illegal, and that the Treasury was aware some little time beforehand that a deficiency would probably arise, though to an unknown extent. Your Committee regret that the situation should have arisen, but recognize that it was difficult to estimate the amount of money that would be required for Old Age Pensions in the first few months.

Their Lordships share the Committee's regret on account of the irregularity which arose at the end of February 1909 by reason of the exhaustion of the original Vote for Old Age Pensions before a Supplementary Grant could be obtained. It is scarcely necessary for them to observe that they fully appreciate the importance of securing adequate and timely Supply Grants to meet all statutory charges against moneys provided by Parliament as they accrue. The mischance which arose on this occasion was due, as the Committee recognize, to the very exceptional circumstances attendant on the initiation of a new and costly service, and is not likely to recur.

Revenue Departments.

Vote 3.—Post Office.

Statements of Losses of Cash and Stores.

31. Appended to the Appropriation Account this year are statements showing the principal items of expenditure charged under Subheads A 13 and E 13, Losses by Default, and of the losses of Engineering Stores written off charge during the year. Your Committee are glad that the Post Office have seen their way to render these statements.

Inter-departmental Transfer of Land.

32. The Post Office paid to the Office of Works a sum of £1,500 in consideration of the surrender of certain land, a payment not in accordance with the general rule that there should be free transfer by one Department which has no use for a particular property to any other Department which requires such property for public purposes. There was a forgetfulness on the part of officers of both Departments of the general rule, and the Treasury withheld their covering sanction to the transaction. Your Committee regret that the difficulty should have arisen, but, under the circumstances explained to them, do not propose to disturb the arrangement.

Post Office Store and Expense Accounts.

System of Cross Check.

36. The Comptroller and Auditor General has several times drawn attention to the recommendation of the Telegraph Stores Committee of 1902 that a system of cross check should be instituted, to ensure that the receipt and issue of stores between the various engineering districts, store depots, and factories duly correspond, and your Committee observe with satisfaction that the system has already been introduced into certain districts, and that the Treasury have given their general approval to the adoption of the system everywhere.

SECOND REPORT, 1911. H.C. 110.

Treasury Minute, 8 December 1911.

CIVIL SERVICES.

CLASS I, VOTE 9.—PUBLIC BUILDINGS (GREAT BRITAIN).

Triennial Contracts.

5. The Public Accounts Committee, in their Second Report of 1909, paragraph 10,* expressed the opinion that, with reference to works costing £800 and upwards being carried out by the Triennial Contractors, the Office of Works might well be brought under the same obligation as the Army Council to put such work to competitive tender. They are now informed that the difficulty has been successfully surmounted by the Office of Works by the institution of a Contracts Branch, with the result that very little such work is now given to Triennial Contractors; while care will be taken that still less is so given in the future.

Principles of Classification.

6. In the Statement of Expenditure on New Works, your Committee observe that £168 10*s.* has been spent in Edinburgh Castle upon a regimental bath-house, and at Stirling Castle £272 3*s.* 3*d.* on an extension of mobilization store, and they are of opinion that these payments should be recovered from Army Funds.

My Lords regret that in the very brief evidence taken on this matter several material considerations were not brought before the Committee.

In the first place, of the sums of £168 10*s. and* £272 3*s.* 3*d., which form the subject of the Committee's recommendation,* £100 *and* £84 0*s.* 2*d. respectively were expended in the financial year* 1908–9 *and charged to the Vote for that year. The ordinary rules of public accounting would preclude a subsequent payment from one Vote (in this case Army Vote* 10) *to be appropriated in aid of another, by way of adjusting an under and over charge respectively to the corresponding Votes in prior years, after the Appropriation Accounts of those Votes have been reported on by the Public Accounts Committee and the surpluses thereon surrendered to the Exchequer.*

In the second place, my Lords, who had themselves raised the question whether the cost of this service should not be borne by Army Funds, were informed by the Office of Works that provision had been made for it in the Vote for Public Buildings, 1909–10. *Regard being had to the fact that the expenditure on this service in* 1908–9 *had been charged to the corresponding Vote for that year, and that this method of provision was in accordance with an arrangement which had, with Treasury approval, been in force for some years past (though now modified), my Lords submit that they would not have been justified in directing that the payments in* 1909–10 *should be charged to the Army Votes; a course which was not only open to the manifest objection of dividing a charge between different Votes in successive years, but would have been directly contrary to the general rule that charge follows provision.*

Under the revised arrangements mentioned above the cost of services such as those now in question will be borne by Army Funds.

My Lords trust that in all the circumstances the Committee will agree with them that recovery from Army Funds of the payments in question would not only be incorrect but would now serve no useful purpose.

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* *See* p. 509.

CLASS VI., VOTE 5.—OLD AGE PENSIONS.

Non-recovery of overpayments.

17. The Comptroller and Auditor General, in his Report for 1908–9, called attention to the difficulty of recovering money from persons in the straitened circumstances of Old Age Pensioners. As stated in the House of Commons on 28 April 1910, the Treasury has now determined to waive the repayment of all sums paid in pursuance of decisions of Pension Authorities actually operative at the time of payment, except in the following circumstances :—

(1) Where the decision has been obtained by deliberate misstatement or misrepresentation made by the pensioner or on his behalf;

(2) Where the continuance of a pension to which the pensioner has ceased to be entitled, or at a higher rate than that to which he is entitled, has arisen through the concealment of material facts.

Difficulty of revising Pensions once granted.

20. The attention of your Committee was drawn to the case of Rex (Pawley) v. the Local Government Board (Ireland), in which it was laid down that a pension once granted cannot be revised unless new facts or a change of circumstances affecting the pensioner's condition have arisen. This decision has considerably limited the scope and impaired the utility of the audit, as the cases referred by the Comptroller and Auditor General to the Treasury for investigation by the Local Government Board will rarely be open to revision owing to the inability to find new circumstances.

The difficulties arising out of the judicial decision in the case of Rex (Pawley) v. the Local Government Board for Ireland, to which the Committee refer, have now been dealt with by the Old Age Pensions Act, 1911.

REVENUE DEPARTMENTS.

VOTE 2.—INLAND REVENUE.

Exemption from Assessment to Income Tax without statutory authority.

23. The Comptroller and Auditor General has again raised the question of the profits that accrued to the Isle of Man in 1909–10, in respect of interest on loans to the open market being paid over to that Government without deduction of tax.

The Board of Inland Revenue, while admitting that the practice is not directly founded upon statutory authority, defend it on the ground of convenience and saving of labour, inasmuch as the tax, if charged, would have to be allowed as a set-off against the interest paid in the United Kingdom on Debenture Loans of the Isle of Man.

A similar course is followed in the case of Foreign and Colonial Government Loans, as it has been laid down by the House of Lords that the tax paid by way of deduction in respect of interest received from moneys deposited with bankers can be allowed as a set-off against the tax on interest paid by Foreign and Colonial Governments through the Bank of England in respect of loans.

Your Committee see no objection to the continuance of the procedure adopted by the Inland Revenue, provided that no net loss of revenue occurs.

The attention of your Committee has also been drawn to the fact that servants' and certain other allowances to Army Officers are paid in full without deduction of Income Tax.

Your Committee understand that the exemption is of long standing, and that having regard to the low rates of pay of the classes of officers affected, the enforcement of tax would be regarded as a grievance. Your Committee have previously stated that the practice of exempting funds from assessment ought not to be continued in the absence of statutory authority, and if legislation is not considered desirable they consider that in any general revision of rates of pay deduction of tax should be enforced.

To the Secretary to the War Office.

My Lords do not doubt that it will be generally agreed that the only proper way of dealing with the matter is by such an adjustment of the amount of the allowances in question as to leave the net receipt of the recipient after deduction of tax the same as his net receipt at present without such deduction, but they recognize, as pointed out in the War Office letter of 27 July 1910, that such adjustments could not be made at the present time without raising the whole question of the revision of the allowances*

My Lords understand from the terms of the Committee's Report that they accept this view but are of opinion that when a general revision of the allowances takes place the opportunity should be taken to put the matter on a proper footing, and their Lordships propose, subject to the concurrence of the Army Council, to give the Committee an undertaking that this course will be adopted.

VOTE 3.—POST OFFICE.

Proposed Changes in the Form of Post Office Estimates.

24. The Postmaster-General desires to make certain improvements in the form of the estimate of the Post Office Vote, and the Treasury have signified their entire approval of the new form, but have submitted the matter to your Committee before giving their final authority for the changes proposed.

Your Committee fully approve of the proposals made,† which it is hoped will lead to simplification of accounts and a saving of staff.

Under the new arrangement the Post Office Estimate will be framed on the same lines as the Estimate of the Navy Shipbuilding Vote (Vote 8) and the statistical distribution of expenditure between the three Post Office Services will no longer be included in the Vote itself but will be appended as a supplementary statement to the Estimate.

Your Committee are glad to learn that any large change of programme by the Post Office will be laid before Parliament as is done in the case of the Navy.

Your Committee also note with satisfaction that an abstract of the Expense accounts under the heads of the Programme of Work will be appended to the Appropriation Account of the Vote and will thus be subject to audit by the Comptroller and Auditor General.

My Lords share the satisfaction expressed by the Committee at the improvements which have been or are being effected in this respect.

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* Printed as Appendix No. 10 to P.A.C. Report 1911, p. 223.

† These are set out in a Memorandum by the Treasury printed as Appendix No. 3* to P.A.C. Report 1911.

THIRD REPORT, 1911. H.C. 157.

Treasury Minute, 27 October 1911.

NAVY APPROPRIATION ACCOUNT.

VOTE 8 (III).—CONTRACT WORK.

Charges to Votes before Final Acceptance.

6. Under the conditions of contracts for the supply of gun-mountings, the balance of the contract price becomes payable when the mountings have been finally accepted, but if proof and acceptance be delayed by the Admiralty beyond three months, the final instalment is paid on a report that the mountings are good and fit, and before proof has been made of them under actual firing. Although this practice does not seem to be in accord with the general principle of not charging Votes with the full contract price until after final acceptance,* your Committee are of opinion that, having regard to the difficulties of carrying out a final test within a definite period, and to the fact that the contractors, under the terms of the contract, are responsible for the efficiency of the mountings for a period of 12 months from the date of their being brought into use, these payments may continue to be treated as charges to the Vote instead of being charged to the contractor's personal account.

In view of all the circumstances my Lords agree with the Committee that the payments referred to may continue to be charged to the Vote, instead of to the contractor's personal account, in cases where the terms of contract actually require payment of the balance to be made, and the contractor gives a guarantee to repay the sum advanced if the mountings subsequently fail to pass proof.

VOTE 9.—NAVAL ARMAMENTS.

Losses of Stores.

7. The Public Accounts Committee, in their Third Report for 1903, laid it down that any loss of stores through shipwreck or otherwise, amounting to over £1,000, should be noted in the Appropriation Account. The question has been raised whether this means the gross value of the stores lost, or the net value after crediting any sums recovered. Your Committee think that a record is only required where the net loss exceeds £1,000.

Following the directions given to the Army Council by Treasury Minute on the Third Report of this Committee of 1903, my Lords authorized the Lords Commissioners of the Admiralty, in their letter of 20 March 1905 (3674), to restrict to cases of loss exceeding £1,000.—so far as losses by fire, shipwreck, &c., beyond the control of responsible persons might be concerned—the usual note appended to the Appropriation Accounts showing the value of the stores, and the amount recovered in respect of these losses. My Lords agree that the limit of £1,000 may be taken to refer to the amount of the net loss, after crediting any sums recovered.

As the ruling applies to Army as well as to Navy Stores, I am to request that the practice of the Army Council also may be governed accordingly in future.

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* See page 518.

Dockyard Expense Accounts.

Insufficiency of Regulations.

18. Your Committee have remarked more than one instance where irregularities have occurred in consequence of insufficiency of the regulations, and one case where an officer failed to make himself acquainted with the regulations which it was his duty to carry out. Your Committee would emphasize, as in former years, the necessity of constant revision of the regulations, and of seeing that an officer is fully acquainted with the regulations before he is allowed to undertake the responsibilities of a post.

Chelsea Hospital.

Responsibility incurred by signing Certificates.

31. The attention of the Committee has been drawn to a practice which prevailed in the Quartermaster's department of Chelsea Hospital, under which, while no loss accrued to the public, receipts and certificates were given which did not accurately represent the facts of the case. The practice seems to have prevailed for a long time, and your Committee regret to notice that more than one Quartermaster has come fresh to the office and has accepted the practice without inquiring into its propriety

32. The case emphasizes the necessity to which attention was drawn by your Committee (paragraphs 42 and 17 of the Second Reports of 1907 and 1908 respectively) that it should be more deeply impressed upon the mind of all concerned, that signing certificates is not a mechanical act, but is in effect the pledging of the word of the signer that the statements made therein are, to his knowledge, correct.

My Lords feel confident that the Army Council fully realize the great importance of bringing home to all officers the personal responsibility which they undertake in appending their signatures to certificates, and they need merely commend to the Council's earnest consideration the views expressed by the Committee on the subject.

Military Works Acts Accounts.

Losses incurred owing to Changes of Policy

33. Under arrangements made in 1909* in the case of any sale of land or buildings, realizing over £1,000, an addition is made to the Statement of Sales already given, showing the date of purchase or construction and the cost, where the particulars are readily obtainable; but attention has been drawn by the Comptroller and Auditor General to cases where considerable loss has arisen which were not noted, because the amount realized was not £1,000. Your Committee are glad to know that a fresh standard is being arranged whereby all cases in which the variation between original purchase or cost and the amount realized by sale is large will in future be notified.

The wishes of the Committee will, my Lords conceive, be met by the arrangement sanctioned in Treasury letter of 5 August last (14588/11), under which the annual statement in the Appropriation Account will include, in addition to sales of property realizing over £1,000, any sales realizing smaller amounts if the cost of purchase or construction was £5,000 and upwards, provided that information as to the original cost is available.

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* See p. 522.

STORE ACCOUNTS OF THE ARMY.

Stores on Loan should not be counted as War Reserves.

36. The Comptroller and Auditor General has rightly noticed that certain guns and carriages which are held to constitute part of the War Reserve, were again shown as on loan to Territorial units and Educational establishments. It seems to your Committee that these should have been reckoned as part of the general stocks of the Army and not included in the War Reserve; for it is obvious that, if war occurred, either the articles in question would have been taken away, and the Territorials to whom they were lent would consequently have been left without weapons, or if the Territorials had themselves been mobilized, and taken the articles with them, they would not have been available for a Reserve for the Army

ARMY ORDNANCE FACTORIES (MANUFACTURING ACCOUNTS).

Capital Account. Building Works Department.

42. A capital account has now been opened for the Building Works Department, but your Committee understand that, as the recent valuation of the buildings is still under consideration, no adjustment has yet been made in respect of those erected in previous years.

The outstanding question relative to the adjustment in respect of buildings erected in previous years has now been settled by Treasury letter of the 13th ultimo (14573/11), in which my Lords agreed that buildings and machinery previously uncapitalized might be added to the account without charge to the Ordnance Factories Vote and without a corresponding credit to the Indirect Expenditure Account.

SECOND REPORT, 1912. H.C. 119.

Treasury Minute, 13 December 1912.

CIVIL SERVICES AND REVENUE DEPARTMENTS.

New Class VIII. Old Age Pensions, Labour Exchanges, Insurance, &c.

3. In accordance with the usual practice the Treasury reported to your Committee that a change had been made in the form of the Estimates for 1912–13, in consequence of the new services established under the National Insurance Act, 1911. It did not appear that any of the existing classes were entirely appropriate for such services, and a new Class has, therefore, been created for the purpose. . . . . It is also contemplated to move into the same class the present Vote for Old Age Pensions, which is now in Class VI., but appears to be more akin to the services provided in the new class. This, however, will not be done until the Estimates for 1913–14.

Your Committee approve of the proposed change.

The Vote for Old Age Pensions is being transferred, in accordance with the proposal made by their Lordships and approved by the Committee, from Class VI. to Class VIII., in the Estimates for 1913–14 now in course of preparation.

In addition to this Vote and the six Votes mentioned by the Committee, Class VIII. will include also the Vote for the National Health Insurance Audit Department, for which provision was first made in the Supplementary Vote for 1912–13 approved by Parliament in the summer of 1912.

Expenditure in anticipation of Vote of Parliament.

Advances from Treasury Chest Fund.

4. The Comptroller and Auditor General reports that in 1910–11 expenditure took place in two cases in anticipation of a Vote of Parliament.

(i) The first Vote on Account of Post Office Services for the year 1910–11 was exhausted before the second Vote on Account could be taken, and a sum of £340,000 was, therefore, advanced out of the Treasury Chest Fund to enable the Department to meet current expenses. This was done on 14 April, and the amount was repaid on 25 April 1910, the further Vote on Account having been passed on 22 April.

(ii) Payments to National School Teachers in Ireland amounting to £141,089 2*s*. 8*d*. fell due on 15 April 1910. These payments are made through the agency of the Post Office, but the Commissioners for National Education in Ireland had not a sufficient balance left out of the first Vote on Account to give the Post Office the needful funds, so that, in this case also, the Treasury advanced the necessary amount in anticipation of the second Vote on Account. As only £91,089 2*s*. 8*d*. was available out of the Civil Contingencies Fund, the balance of £50,000 was likewise provided out of the Treasury Chest Fund.

Your Committee are informed that this is the first time the Treasury Chest Fund has been used for Home Services.

Your Committee adhere to the principle laid down by the Treasury in 1902, based upon the Report of the Public Expenditure Committee of 1861, that the Treasury Chest is a Central Banking Fund which exists for the purpose of laying down funds *abroad* to carry on the public service generally, and they view with great jealousy and departure from that principle. In the case under review, the Treasury, not having the money to carry on the approved Parliamentary Services, and there being no margin in the Civil Contingencies Fund, allowed an encroachment upon the Treasury Chest Fund, although there was no Vote of Parliament to guarantee that the sum borrowed would be repaid to the Fund.

Your Committee recognize that an unforeseen emergency had arisen, and that the course adopted by the Treasury involved no ultimate loss of public funds, but they cannot admit that the emergency justified an encroachment upon the Treasury Chest Fund, which, in the words of the Treasury Minute of 1902, " should only be employed for the legitimate " banking operations of the Treasury Chest Abroad, and for advances for " Public and Colonial Services, repayable out of Votes of Parliamnet or " other funds applicable thereto."

Your Committee are strongly of opinion that to use the Treasury Chest Fund as an auxiliary reserve to the Civil Contingencies Fund is contrary to the wishes of Parliament, and they are glad to learn that the Treasury have no intention, in the event of future emergencies, of repeating the procedure in this case. Your Committee greatly regret that the necessity should have arisen through what they cannot but regard as a gross miscalculation in estimating the amount required for a Vote on Account. Care ought always to be taken that the amount asked for is sufficient to cover the whole needs of the period for which the Vote is required.

The Committee, after stating the circumstances in which advances came to be made from the Treasury Chest Fund in order to provide

funds for carrying on Home Services in anticipation of Votes of Parliament, express the view that such a use of the Treasury Chest Fund was not justified by the emergency which had arisen and is contrary to the wishes of Parliament. The Committee recognize, however, that the course adopted by the Treasury involved no ultimate loss to public funds.

The emergency arose, as the Committee state, out of a miscalculation in the preparation of the first Vote on Account for 1910–11 of the amounts required for two services. My Lords regret the miscalculation and can assure the Committee that the greatest care is always taken to secure that the amount asked for shall be sufficient to cover the whole needs of the period for which the Vote on Account is required. My Lords further concur with the Committee in regarding it as undesirable that the Treasury Chest Fund should be used as an auxiliary reserve to the Civil Contingencies Fund, on the ground that the former should be kept for its normal purpose of laying down funds abroad. But they must point out that the Civil Contingencies Fund is limited to a total of £120,000, which has remained unaltered since 1862, notwithstanding that the expenditure for Civil Services and Revenue Departments has increased from £13,500,000 in 1862–63 to £70,500,000 in 1911–12, and is now a very inadequate reserve for emergencies. So long, therefore, as the Civil Contingencies Fund remains at its present figure, my Lords do not feel able to state without qualification, as suggested by the Committee, that the Treasury have no intention, in the event of future emergencies, of repeating the procedure in this case. They desire to draw the attention of the Committee to the alternatives which were before them when the emergency had once arisen in these cases. The first alternative was to suspend payments from the Votes in question. This course would not only have caused considerable hardship to individuals, but in the case of the Annuities payable from the Post Office Vote would have involved some actual loss to Public Funds. The second alternative was to find some means of advancing money to the Votes which were exhausted. So far as my Lords are aware, the Treasury Chest Fund was the only source from which it was legal for them to make such advances, it being admitted that such a use of the fund is not contrary to the provisions of the Treasury Chest Fund Act, 1877, although in the opinion of the Committee (and of the Treasury) this use is neither normal nor generally desirable.

My Lords have under consideration the question of asking Parliament to increase the Civil Contingencies Fund to an adequate figure, and, if this is done, they will readily undertake that for the future they will not use the Treasury Chest Fund for Home Services. But in the meanwhile they cannot give an unconditional pledge which may well leave them without legal means of providing for inevitable emergencies which the Civil Contingencies Fund is at present insufficient to meet.*

EXHIBITS IN NATIONAL MUSEUMS AND GALLERIES.

Inventories and Stocktaking.

5. Your Committee have noted with great satisfaction the report of the Comptroller and Auditor General that he has for some time given his attention to the questions of (1) Inventory Record, and (2) Stock Survey of Exhibits in the several National Museums and Galleries, in connexion with the general observations on the subject of Store Audit contained in Treasury Minutes dated 15 November 1886, and 19 November 1894. It appears that, while in most cases attempts have

* See P.A.C. 2, 1913. 7 at page 546.

been made to keep inventories of all acquisitions, in no case is there any systematic survey of stock either by the custodians themselves, or by any independent officers, and no procedure exists for reporting to the Treasury and Parliament any losses that may occur. It further appears from the evidence with regard to the Museum of Antiquities at Edinburgh, that a theft of certain articles was actually perpetrated by the Assistant Keeper, and was only detected by the honesty of a pawnbroker who suspected the source of sundry articles left with him in pledge, and handed them over to the police, who restored them to the Museum. Your Committee understand that, in the case of the Museum at Edinburgh, the articles are only checked on the issue of a fresh catalogue, that new catalogues have only been framed three or four time since 1869, and that the latest issue was made in 1899. Your Committee are informed that a committee appointed by the Board of Education to inquire into the whole question, so far as the Museums under the control of that Department are concerned, have made their report, and that when this has been considered by the Treasury, such action as may be found necessary will be taken with the collections under other authorities. The Comptroller and Auditor General will report further on the subject next year.*

Your Committee are of opinion that the articles in the National Museums and Galleries ought to be properly recorded, all additions being carefully noted, that the records should be checked from time to time by independent officers, and not, as is now done, merely by the curators themselves, and that definite rules should be laid down as regards reporting additions and writing off deficiencies. Further, they consider it essential that the results of the stocktakings should be subject to review by the Comptroller and Auditor General, as in the case of stores generally.

My Lords have not yet had an opportunity to consider the Report of the Committee appointed by the Board of Education to inquire into the question, so far as the Museums under the control of that Department are concerned, of Inventory Records and Stock Surveys. They understand that the matter is still under the consideration of the Board of Education.

CLASS I., VOTE 9.—LABOUR EXCHANGE BUILDINGS, GREAT BRITAIN.

Classification of expenditure on structural alterations in leasehold buildings.

8. Your Committee noted that a sum of £856 was expended in "adapting" and furnishing a rented building for the purpose of a Labour Exchange, and they were informed that the "adapting" included structural alterations which had been charged to the Vote as part of the furnishing, but it seems to your Committee that the more correct way with a leasehold building would have been to charge such alterations as an addition to the rent.

My Lords concur with the Committee that expenditure on alterations to rented buildings should be carefully limited, especially when the building is held on a short lease, and they cannot but regret that, in circumstances which were fully explained to the Committee in the evidence given, so much of the expenditure in question as was incurred for alterations to the Bradford Labour Exchange proved eventually to have been wasted. But it appears to my Lords that a general application of the principle suggested by the Committee would involve a

* See further P.A.C. 1914, 2. at p. 551.

considerable change in the method of preparing the Estimates in Class I., and would lead to an undesirable multiplication of the number of subheads under which provision is made for expenditure upon the structure of buildings. They understand that the present practice is to group under one subhead (Rents, &c.) all payments to landlords in the nature of rent for buildings occupied for public purposes but not public property, and to provide under other subheads (New Works, &c., or Maintenance, &c.) for all payments to contractors for structural work or repairs to buildings occupied for public purposes, whether public property or not.

This arrangement is convenient in that it makes it possible to show clearly in the Estimates what provision is made for each kind of expenditure, and it appears to my Lords that if the method proposed by the Committee were adopted, it would be necessary to split up the provision in each estimate for New Works and Maintenance and Repairs, and make separate provision under the Subhead for Rents, &c., for expenditure on New Works and Maintenance and Repairs in the case of rented buildings. Such a course would, my Lords consider, add unnecessary complications to the Estimates without any compensating advantage.

CLASS III.—VOTE 5. PUBLIC TRUSTEE.

Audit of Trust Accounts.

11. Your Committee are glad to be informed that new regulations prescribed by the Treasury for a more comprehensive audit by the Comptroller and Auditor General of the Trusts and securities in the hands of the Public Trustee have been issued and are working satisfactorily.

APPENDIX NO. 7 TO REPORTS 1912.

REGULATIONS DATED 15 FEBRUARY 1912 PRESCRIBED BY THE TREASURY FOR AUDIT OF TRUST ACCOUNTS IN ACCORDANCE WITH NO. 23 OF THE STATUTORY RULES OF 29 NOVEMBER 1907.

1. It will be ascertained, as far as possible, that the Accounts of each Trust contain a complete and accurate record of all transactions with the trust moneys and other property since the date to which the accounts were last audited.

Provided that, where income is paid direct to beneficiaries and does not pass through the hands of the Public Trustee, it will be sufficient to ascertain that the directions given by the Public Trustee for such payment are in accordance with the written authority of the beneficiaries and are within the terms of the trust instrument and the law of trusts.

2. It will be ascertained that the transactions recorded in the Trust Accounts are in accordance with the terms of the trust instrument, with the Public Trustee Act and Rules, and with the law of trusts.

Provided that if a question arises whether any such transaction is in accordance with the powers and duties of the Public Trustee and it is shown that the Public Trustee has acted upon legal advice, the Comptroller and Auditor General may, if he think fit, allow such transaction without further question.

3. It will be ascertained that all transactions are supported by proper vouchers or other documents as circumstances may require.

Provided that where the castings and computations shown in such vouchers and documents bear evidence that they have been verified in the department of the Public Trustee, a second verification in such castings and computations may be dispensed with to such extent as the Comptroller and Auditor General may think fit.

4. The securities and bank balances appertaining to each trust will be verified at each examination of the accounts of such trust.

The receipt of a certificate by a bank or other proper custodian of such securities to the effect that the securities are held for the Public Trustee may be accepted as a sufficient verification of such securities.

Provided that where the securities are not under the control of the Public Trustee and the Comptroller and Auditor General is satisfied that no liability attaches to the Consolidated Fund in respect of such securities he may dispense with the verification thereof.

5. It will be ascertained that accounts of the trust funds have been transmitted to beneficiaries in due course, except in any case where the Comptroller and Auditor General is satisfied that there is sufficient reason for not transmitting such accounts.

6. The audit of trust accounts will be so arranged that the accounts of each trust shall come under audit at such intervals as may be prescribed from time to time by the Treasury.

7. The Comptroller and Auditor General will report each year to the Treasury the result of the audit of trust accounts during the preceding financial year, and will report specially at any time any matter relating to the account which should in his opinion be brought to the notice of the Treasury.

VOTE 8.—PUBLIC EDUCATION, SCOTLAND.

Postponement of Payments to avoid Excess.

15. The Comptroller and Auditor General reports that, in the examination of the account for 1911–12, it was found that payments of Grants under Subheads E and F, amounting in the aggregate to about £75,000, were not made till early in April 1911, although it appeared from the dates of the Examiners' certificates that the conditions precedent to payment had been fulfilled for some weeks previously. Your Committee recognize that the matter is somewhat complicated, from the fact that the school years terminate at different dates. They are of opinion, however, that there was no sufficient reason for carrying forward so large a sum, and, in view of the evidence given, they wish to draw attention to the opinion expressed in their Second Report of 1891 and endorsed by the Treasury, that payments coming within the provision made by Parliament, which are duly and fully matured, should not be postponed, even for the purpose of avoiding an excess upon a grant.

My Lords fully endorse the view expressed by the Committee, and previously insisted upon by them (vide *the Treasury Minute of 3 January* 1892), *that payment coming within the provision made by Parliament which are due and fully matured should not on any account be postponed even for the purpose of avoiding an excess upon a grant. They trust that the changes recently authorized by them in the dates of payment of the grants now in question will tend to lessen the administrative difficulties referred to by the Committee which were partly responsible for the postponement of payments in question.*

CLASS V., VOTE 2.—COLONIAL SERVICES.

Audit of Accounts of Grants in Aid to Colonies.

Colonial Audit Department.

18. Your Committee are glad to be informed that the new Colonial Audit Department is working satisfactorily, and that the Comptroller and Auditor General readily obtains such information as he requires to enable him to carry out any supplemental check that he may desire. In view

of the new arrangements, they are of opinion that papers B to H, appended to the Vote in the Appropriation Account, may be discontinued, since they are not required for the purposes of Parliamentary audit and the information is contained in Annual Reports presented to Parliament.

My Lords concur with the Committee in thinking that papers B to H appended to the account showing the receipts and expenditure of Colonies in receipt of Grants in Aid might be omitted for the future, and, unless Mr. Harcourt sees objection, they would be glad if he would give directions for this course to be followed in the preparation of future Appropriation Accounts for this Vote.

GENERAL.

Payments for Overtime and Extra Duty.

24. Your Committee have again, as in 1909, had their attention drawn on many of the Votes to numerous cases of extra remuneration in the shape of payments for overtime, Extra Duty Pay, Secretaryships to Committees or Commissions, and other special kinds of work, and have given the subject careful consideration.

They had the advantage of considerable evidence from Sir Thomas Heath, and are glad to know that overtime is recognized by the Treasury as an evil, if a necessary one. They trust that unceasing vigilance will be maintained to curtail it to a minimum.

Other forms of extra remuneration involve more complicated questions. There are cases in which a man's special capabilities and experience are legitimately rewarded for some special work, and this work may impose on others extra labour, or some addition to their normal responsibilities. Your Committee acknowledge, however, that the Treasury are alive to the possible evil effects of the practice, and are assured that in this matter also constant vigilance will not be relaxed.

THIRD REPORT, 1912. H.C. 156.

Treasury Minute, 10 December 1912.

ARMY APPROPRIATION ACCOUNT.

Contracts—Audit and Administration.

4. The examination applied to charges for the supply of horses for the combined manœuvres of 1910 disclosed the fact that the contracts for the Aldershot Command made in August 1910 were considerably higher than those for the Southern and Eastern Commands made in May or June, and that firms whose tenders were accepted for the Aldershot Command had previously tendered unsuccessfully at lower rates for the other two Commands.

To an inquiry by the Comptroller and Auditor General whether consideration had been given to the advisability of obtaining tenders for the manœuvres of all the Commands concerned at the same time, the War Office replied that " This does not appear to be a matter of audit of accounts."

Whereupon the Comptroller and Auditor General, in the absence of any information on the subject, reported the matter to your Committee in accordance with the views expressed by the Public Accounts Committee of 1888, in their Second Report, paragraphs 71

and 72, and by the Treasury in their Minute of 10 January, 1889,* so that your Committee might, if they thought fit, satisfy themselves on the particular point raised.

Your Committee have examined the Accounting Officer of the Department, both as to the procedure in carrying out the particular contract and, also, as to the question of principle involved in the refusal of information to the Comptroller and Auditor General.

As regards the first point it would appear that the military authorities in the Aldershot Command were at fault in postponing the issue of tenders until within one month of the date on which the transport was required, in consequence of which considerable extra expenditure was incurred. Your Committee understand that instructions on the point will be issued by the War Office to the Commands concerned for future guidance.

As regards the refusal of information to the Comptroller and Auditor General the Accounting Officer explained that the War Office had in this particular case exercised the discretion which was contemplated in the Treasury Minute, as they regarded the question raised as of an entirely administrative character. The Accounting Officer, however, admitted that there were no reasons of public policy why an explanation should not have been given, and your Committee therefore regret that the information should have been withheld, as they regard the particular question raised as falling within the category of ordinary cases dealt with at the latter part of the Treasury Minute referred to in which it was stated that " it is desirable that the Comptroller " and Auditor General should receive such explanations as may be proper " in order that the question may be laid before the Committee of Public " Accounts for consideration in a complete form."

It will be seen, however, from subsequent correspondence (see Appendix No. 19) which has passed between the Army Council and the Comptroller and Auditor General, that the War Office have agreed, when questions of an administrative character are raised, to furnish explanations in all ordinary cases (as contemplated by the Treasury Minute of 1889), provided that any suggestions or criticisms made by the Comptroller and Auditor General, and accepted by the War Office, are not to be regarded as establishing a precedent by which future administrative action should be bound, as is generally the case in the sphere of accounts, but that the Army Council preserve perfect freedom in their administrative sphere to act in each case as circumstances may in their judgment demand.

The Comptroller and Auditor General has consented to this arrangement as well as to the further suggestion of the War Office that correspondence in the case of questions of an administrative nature should be conducted by letter—instead of by the " Reference Sheets " or " Queries " generally used in connexion with matters of account.

Your Committee are of opinion that the arrangement indicated in the correspondence sufficiently establishes a correct procedure in questions which, while they may be regarded as touching points of administration, yet, in the opinion of the Comptroller and Auditor General, are such as to indicate waste of public funds.

My Lords concur with the Committee in the opinion that the case was one of those contemplated in the latter part of the Treasury Minute of 10 January 1889, in which " it is desirable that the Comptroller and " Auditor General should receive such explanations as may be proper in

* See page 207.

" order that the question may be laid before the Committee of Public " Accounts for consideration in a complete form."

As regards the future they agree with the Committee that the procedure described in the correspondence printed in Appendix No. 19 to the Committee's Report may properly be adopted.

GENERAL.

Certificates not in Accordance with Fact.

8. Your Committee are informed that further cases of certificates not in accordance with the facts have been brought to the notice of the War Office. In one case, the Army Council decided that the amount of the payments so incurred should be made good to the public by the officer chiefly responsible and they have issued a circular letter impressing upon all officers the importance of rendering certificates which correctly indicate the circumstances of the transactions to which they refer.

Your Committee regret to note this further evidence of a widespread carelessness in giving certificates, and earnestly hope that the Army Council will lose no opportunity of visiting with full penalties all cases in which it is brought to their notice that certificates have been granted which are not in accordance with facts.

My Lords concur with the views of the Committee on this subject and commend them to the attention of the Army Council.

SECOND REPORT, 1913. H.C. 179.

Treasury Minutes, 7 January and 2 February 1914.

CIVIL SERVICES AND REVENUE DEPARTMENTS ACCOUNTS.

Analysis of Appropriations in Aid.

4. Your Committee consider that the larger items of the Appropriations in Aid should always be stated.

T.M. 7 January 1914.—My Lords note the recommendation of the Committee that the larger items of Appropriations in Aid should always be stated in the Appropriation Accounts, and they are taking steps to draw attention of Accounting Officers to the wishes of the Committee in this respect in all cases where the Appropriations in Aid comprise items of a substantial amount which are not already shown separately.

REGROUPING OF ESTIMATES.

Revision to Seven Classes of Civil Services.

5. The Treasury submitted to your Committee a proposal for a rearrangement of the Civil Service Estimates (Classes VI to VIII) in 1914-15. The net result is, by a more appropriate distribution of the Votes in the existing Classes VI, VII, and VIII to get rid of one Class, and thus revert to the former total of seven classes. Your Committee approve of these proposals.

The proposed rearrangement of the Civil Services Estimates, Classes VI to VIII, is being carried out, and the Estimates for 1914–15 will be presented to Parliament in the form approved by the Committee.

CLASS I., PUBLIC WORKS AND BUILDINGS.

Change of Plans subsequent to inclusion in Estimates.

6. Your Committee noticed in the Accounts of Votes for buildings administered by the Office of Works, and particularly in the case of the Post Office, numerous instances in which changes of plans subsequent to inclusion in the Estimates have led either to large under-expenditure in the year, and consequently to surrender of unnecessary provision, or to the employment of voted money on services for which inadequate or no provision had been made.

They are aware that it is not always easy to forecast some months beforehand the exact requirements for any particular building, but are of opinion that sufficient care has not been taken in the matter, and hope that all Departments concerned will do their utmost to remedy the present state of things.

They observe that in the Estimate for Revenue Buildings 1913–14, the total of the several amounts required for new Post Office and Telegraph Buildings (including alterations and additions) has for the first time been reduced by a lump sum; £45,000 having been allowed in respect of " works which may not be carried out during the year."*

To the First Commissioner of Works:—

My Lords trust that you will take steps as occasion arises to impress the views of the Committee upon the Departments concerned.

To the Postmaster General :—

My Lords share the views expressed by the Committee respecting the disadvantages that result from changes of plan in the case of building services for which provision has been made in the Estimates, and they trust that you will take every step consistent with the efficiency of the public service to ensure adherence to the Estimates in the case of services of this nature.

EXPENDITURE IN ANTICIPATION OF VOTE OF PARLIAMENT.

Advances from Treasury Chest Fund and from Civil Contingencies Fund.

7. In reference to paragraph 4 of the Second Report of the Committee of Public Accounts of last year, your Committee notice that, by a Supplementary Estimate taken 11 February 1913, the Civil Contingencies Fund has been increased by a sum of £180,000, thus raising it to £300,000. The Treasury, in paragraph 3 of their Minute of 13 December 1912, on the Second Report of Committee of Public Accounts, 1912, say :—" My Lords have under consideration the " question of asking Parliament to increase the Civil Contingencies Fund " to an adequate figure, and, if this is done, they will readily undertake " that, for the future, they will not use the Treasury Chest Fund for " Home Services." It seems, however, from the evidence of Sir Thomas Heath, that the Treasury are not prepared to say that the sum of £300,000 is adequate in proportion to the total amount of the Civil Services Estimates, and, therefore, your Committee did not obtain the assurance they desire that under no circumstances will resort be had to the Treasury Chest Fund to supplement deficiencies in the Civil Contingencies Fund. Your Committee were not consulted as to the amount by which the Civil Contingencies Fund was increased, and greatly regret that sufficient was not provided to enable the Treasury

* This expedient had, in fact, been adopted before, see page 329.

to give the required undertaking. Your Committee are strongly of opinion that the Civil Contingencies Fund should without delay be made self-contained and adequate for its purpose. From the evidence it would seem that a further sum of £200,000 or £300,000 may be needed.

*As the Committee point out, the Civil Contingencies Fund has been increased by a sum of £180,000 to £300,000. My Lords regret that for reasons explained in evidence before the Committee it was not possible to consult them before the amount of the increase was determined, but the question received the fullest consideration on the part of their Lordships, who believed and still believe that the sum actually fixed is fully adequate to meet all the ordinary requirements of the public service. My Lords have already expressed the opinion, which they now repeat, that it is undesirable to have recourse to the Treasury Chest Fund for Home Service; but on further consideration their Lordships have come to the conclusion that in a case where any prediction whatever may be falsified by the event it would not be proper nor in the public interest that they should give a definite pledge that they will never in any emergency, however grave, avail themselves of a resource which is legally open to them, when there is no alternative between such a step and the dislocation of the public service. If such a pledge were to be given it would be necessary to increase the amount of the fund to a figure which in the opinion of the Board would be altogether in excess of the normal requirements, and they would be reluctant to ask Parliament to adopt the expensive course of locking up a sum of money much in excess of what is likely to be required. In these circumstances, while my Lords regret to find themselves in disagreement with the Committee, they are strongly of opinion that it would be inadvisable to make any further addition to the Fund until the effect of the recent changes has been tested by experience.**

CLASS II. VOTE 1A.—HOUSE OF COMMONS.

Salary of Members; Income Tax Abatement.

8. The Treasury decided, under Section 51 of the Act 16 and 17 Vic., c. 34, that as from 1 April 1912 a uniform allowance of £100 per annum for expenses should be granted as a deduction from the gross assessment to Income Tax of the £400. The Comptroller and Auditor General pointed out that the £400 was definitely voted as salary, and, apart from this and other considerations, expressed a doubt whether a uniform allowance without proof of actual expenditure, "wholly, exclusively, and necessarily" incurred in the performance of Parliamentary duties, could be regarded as satisfying the conditions or the intentions of the section.

The Law Officers do not appear to have been consulted, and no legal opinion on the question is forthcoming, but it was practically admitted in evidence that the uniform allowance is not sanctioned by the Act, but is an arrangement approved by the Treasury without legal authority with a view to obviating administrative difficulties in dealing with claims for abatement submitted by Members, such claims presenting questions of much complexity to the officials in the Paymaster-General's office, who act as Commissioners of Income Tax in respect of public salaries paid by that Department, and from whose decisions there seems to be no appeal.

* For later increases in the Civil Contingencies Fund see P.A.C. 3. 1921.74 at p. 634.

Your Committee do not admit the existence of the discretionary powers claimed in this case, and adhere to the opinion expressed by the Committee of Public Accounts in their Second Report of 1909, that the practice of exempting funds from assessment ought not to be continued in the absence of statutory authority.

It appears to your Committee that the first alternative open to the Treasury was to provide for the payment of £400 a year, or a definite portion of the same, not as " salaries " but as " allowances " for expenses, which might have been treated as wholly free from assessment. The Chancellor of the Exchequer stated in the House of Commons on 10 August 1911 : " When we offer £400 as payment of " Members of Parliament, it is not a recognition of the magnitude of " service, it is not a recompense, it is not even a salary. It is just an " allowance, and, I think, the minimum allowance to enable men to " come here," while the Attorney-General, on 14 August, used similar language, explaining that the amount was fixed by His Majesty's Government, after consideration of the various expenses which fall upon a Member, as " a fair and sufficient allowance " for his services.

Assuming, however, that the present method of provision by salaries is retained, and in view of the fact that the arrangement of a lump sum deduction is regarded by the Departments concerned as a convenient one, and as being on the whole fair to the Exchequer (which would lose a considerable amount by an exemption of the £400 in full), your Committee suggest that the procedure adopted in this and certain other instances which were appealed to as precedents might properly be regularized by legislation empowering the Treasury to authorize the averaging of certain classes of expenses for the purpose of exemptions under the Act of 1853.

Your Committee are of opinion that Parliament should decide whether the 400*l*., either as a whole or in part, is to be treated as salary or allowance.

My Lords take due note of the observations of the Committee upon their decision that for purposes of Income Tax on the salaries of Members a uniform allowance of £100 in respect of expenses should be granted as a reduction from the gross assessment under Section 51 of the Act 16 and 17 Vict. c. 34.

The grounds upon which this decision was arrived at were fully explained in evidence before the Committee, and the action taken in this and certain other instances has now been regularized by legislation (vide *Section 3 of the Finance Act*, 1913), *as recommended by the Committee.*

Revenue Departments.

Vote 1—Customs and Excise.

Penalties for Offences against the Revenue.

13. The attention of your Committee was drawn to a very serious case of fraud, extending apparently over a number of years, in which a sum of £26,336 16*s*. was recovered from a firm in respect of duty on tobacco, for which the firm was liable, which was not paid in consequence of the systematic under-weighing of tobacco in a Bonded Warehouse by the firm's employees.

The firm denied all knowledge of the fraud, but their bond for £50,000 was nevertheless subject to forfeiture under legal proceedings.

* * * * *

Your Committee feel compelled to say that from the point of view of a possible recurrence of similar frauds the penalties incurred in this instance, both by the actual perpetrators and by those whose special duty

it was to have frustrated them, seemed inadequate to the long series of offences disclosed.

* * * * *

Although your Committee do not suggest that the matter should now be reopened, they feel bound to put on record their opinion that the recovery of the money lost did not meet the full requirements of the case, and that, if the Board were satisfied as to the absence of all complicity on the part of the firm, they should have insisted in the public interest on some measure of punishment being meted out to those who were guilty.

Their Lordships desire to associate themselves emphatically with the view of the Committee that, as a general principle, the action to be taken in regard to offences against the revenue should be framed with the object not only of recovering the duty involved or of penalizing the offender in the particular case, but also of preventing, as far as may be, by its deterrent effect, the recurrence of similar attempts on the part of others.

VOTE 2.—INLAND REVENUE.

Remissions of Duty—Desirability of Statutory Sanction.

14. The Comptroller and Auditor General has drawn attention to the exclusion of certain classes of cases from the Annual Schedule of Remissions of Duty (furnished to him by the Board of Inland Revenue under the directions of Treasury Minute of 31 December, 1897, on the Second Report of Committee of Public Accounts, 1897).* Some of these are to be included in future, and the only class which appears to present difficulty is that which falls into the category of remissions of general application affecting classes.

It is admitted to have been the intention of the Treasury in the minute referred to, to exclude this category from the schedule and, where possible, to make the cases comprised in it the subject of specific legislation. In practice, however, this has proved difficult to carry out.

Your Committee are of opinion that statutory sanction should be obtained wherever possible, and with that object they would suggest the desirability of a periodical return by the Board of Inland Revenue to the Treasury of the principal groups of such cases, which should also be accessible to the Comptroller and Auditor General.

To the Commissioners of Inland Revenue.

The Committee's opinion that statutory sanction should be obtained wherever possible in these cases accords with the view expressed by their Lordships' predecessors in their Minute on the Second Report of the Public Accounts Committee, 1897.

Such sanction should undoubtedly be sought at the earliest opportunity in respect of all concessions of a general nature, the character and scope of which are such as to permit of satisfactory statutory definition, and my Lords are of opinion that classified returns of the kind suggested by the Committee, including the principal groups of cases in respect of which remissions are allowed, would be of value both with a view to ascertaining the classes in regard to which legislation may be practicable and also to systematizing and consolidating departmental practice in regard to the classes which cannot be so dealt with.

They would be glad to be favoured with your observations on the proposal of the Committee that such returns should be prepared periodically by your Board for the information of their Lordships, and made accessible to the Comptroller and Auditor General.†

* See pp. 406–408.

† The Commissioners agreed to this proposal, see Q. 1229 of Evidence, P.A.C. 1914.

ARMY APPROPRIATION ACCOUNT.

VOTE 15.—CIVIL SUPERANNUATION, COMPENSATION, AND GRATUITIES.

Impersonation of Pensioners.

22. The attention of your Committee has been drawn to the case of two pensioners residing in America who had been personated for many years, their deaths having occurred in 1873 and 1890 respectively. The offender was brought to trial and sentenced.

While glad to learn that such cases are of very rare occurrence, your Committee are informed that there is no uniform or systematic method of personal identification in force in the various Government Departments, and they trust that the proposed inter-Departmental Conference on the subject will lead to the matter being placed on a more satisfactory footing.*

T.M., 2 February 1914.—The Interdepartmental Committee appointed by their Lordships in August 1913 to consider this subject has not yet reported.

NAVY APPROPRIATION ACCOUNT.

VOTE 10.—WORKS, BUILDINGS, &C.

Services Commenced Before Passing of Vote.

34. It appears that in 1911 and 1912, owing to the late date at which the Works Vote was passed by the House, it was considered necessary by the Admiralty to obtain Treasury sanction for commencing the more important of the new Part I. services in anticipation of Parliamentary approval.

In 1911 and 1912 the Admiralty Vote for Works was not taken in Committee of Supply until 14 August and 29 July respectively, and the Vote for the present year still remains to be taken.

Your Committee regret that the correct procedure under which this Vote should be taken, if not with Vote I. before the commencement of the new financial year, at any rate quite early in it, is not being observed, and recommend that that course should be strictly adhered to for the future.

My Lords entirely agree with the view of the Committee that it is desirable that Vote 10 should be taken at an early date in the financial year so as to obviate, as far as possible, the commencement of urgent works in anticipation of Votes of Parliament. They trust the Board of Admiralty will take the necessary steps to this end.

NON-EFFECTIVE CHARGES ON ACCOUNT OF OFFICERS LENT TO COLONIAL AND FOREIGN GOVERNMENTS.

35. Your Committee record with satisfaction the new arrangement, under which Colonial and Foreign Governments have willingly agreed to defray the non-effective charge in addition to effective charges for officers lent.

NAVY STORE ACCOUNTS.

Independent Stocktaking in Naval Yards.

36. Your Committee are glad to learn that, at yards abroad, it has now been decided, in accordance with this Committee's recommendation, that the duty of stocktaking should be carried out by the Expense

* See further P.A.C. 3. 1921, 35-7 at p. 628.

Accounts Staff, and they understand that the decision to adopt the same course at home yards will be shortly promulgated, when other dependent questions have been settled.

My Lords await the proposals of the Board of Admiralty to join in further consideration of the subject of stocktaking at Home Yards as promised in Admiralty letter of 3 April last. [See further at p. 554.]

REPORT, 1914. H.C. 249.

*Treasury Minutes, 1 November 1914 and 29747/14.**

CIVIL SERVICES AND REVENUE DEPARTMENTS.

Inventories and Stocktaking of Exhibits in National Museums and Galleries.

2. The Report of the Committee appointed by the Board of Education to inquire into the system of inventory records and stock surveys of the exhibits at Museums under the control of the Board, appears to provide a satisfactory method of recording these exhibits which has been adopted by the Board. A further Report as to the adequacy of the arrangements will be made by the Comptroller and Auditor General when he has had an opportunity of applying a test audit to the system in actual operation.

Your Committee are informed that the Treasury has under consideration the application of the general principles of the Report to other National Museums and Galleries. In Scotland, departmental surveys have been or are being made of the National Gallery and Portrait Gallery and the Royal Scottish Museum at Edinburgh. With regard to the Tower of London, Chelsea Hospital, the Houses of Parliament, Kew Gardens, the National Gallery of Ireland, and the National Museum, Dublin, your Committee are informed that inventories are kept at all these Institutions, but there do not seem to be in any of these cases rules for periodical surveys of the stock.†

CLASS V., VOTE 1.—DIPLOMATIC AND CONSULAR SERVICES.

Inspection of Consular Officers' Cash Balances.

11. Your Committee are informed that a system of independent inspection of Consular balances, suggested by the Comptroller and Auditor General as long ago as 1892 [see page 298,] is now being introduced, and that four inspectors for Europe have actually been appointed.

CLASS VIII., VOTES 1, 2, ETC.—NATIONAL HEALTH INSURANCE JOINT COMMITTEE, AND COMMISSIONS.

Audit of Approved Societies' and Insurance Committees' Accounts.

15. Apart from the charges in 1911-12 which were of a preliminary character, the accounts in this class include the first accounts of expenditure by the National Health Insurance Commissions and the Board of Trade under the National Insurance Act 1911. Provision is made under Sections 35 and 60 of that Act for the audit of the accounts of Approved Societies and of Insurance Committees by auditors to be

* Undated, published as Appendix No. 2 to P.A.C. Reports, 1915.
† See further P.A.C. 2, 1915, 2 at page 555.

appointed by the Treasury, and under Treasury Minute dated 6 August, 1912, the National Insurance Audit Department was constituted for that purpose.

16. It was explained to your Committee by Sir John Bradbury, Joint Permanent Secretary to the Treasury, that, while the direct payments out of voted moneys, e.g., benefits to Deposit Contributors and State Contributions paid into the Insurance Fund, would come directly under the purview of the Comptroller and Auditor General, the Treasury auditors would examine the accounts of the Approved Societies and Insurance Committees, covering the payment of benefits and administrative charges which represent expenditure incurred by outside bodies and not directly by Government. It was further explained that to the extent of seven-ninths (three-quarters in the case of women), the payments to the Approved Societies are derived from the contributions of employers and employed, the remaining two-ninths (or one fourth), being the State contribution. The whole of these contributions would be based on the expenditure certified by the Treasury Auditor, and, as in the similar case of certain *pro rata* grants to local authorities, passed by the Comptroller and Auditor General on the certificate of the Local Government Board Auditor, the Comptroller and Auditor General would not go behind the certificate of the Treasury auditor for the purpose of assessing the Government quota. This procedure has the concurrence of the Comptroller and Auditor General, and your Committee see no reason to dissent from it, but they are of opinion that as the new scheme, involving very large expenditure of public money, is more or less in the experimental stage, the working of the financial machinery should be carefully watched.

My Lords note the opinion of the Committee that "as the new "scheme, involving very large expenditure of public money, is more "or less in the experimental stage, the working of the financial machi-"nery should be carefully watched."

VOTE 8.—FRIENDLY SOCIETIES (GRANTS IN AID).

Date of Charge.

18. A sum of £46,321 11s. 11d. out of a total of £47,000 voted in July 1912, which remained on the Vote account on 31 March 1913, owing to an ommission to transfer it to a special account, is, as reported by the Comptroller and Auditor General, technically liable to surrender, although the intention expressed on the Estimate was that only the balances finally remaining unexpended on the ultimate closing of the accounts of the valuations should be so surrendered.

19. Your Committee have been referred by the Comptroller and Auditor General to a somewhat similar case in which the Committee of Public Accounts of 1892 (paragraph 38 of Fourth Report), admitted as a charge against the year in which payment should have been made a sum which, through an oversight, was not transferred to the Pleuro-Pneumonia Account.* In that instance the Committee felt great difficulty in sanctioning a course not strictly in accordance with the Exchequer and Audit Act, but consented to do so, in view of arguments adduced as to the special circumstances of the case, and of an assurance that there was no reason to fear any similar occurrence in future, or that the course adopted would be drawn into a precedent.

Your Committee regret to find an oversight of this kind repeated, but, in all the circumstances, they will not refuse to allow the full amount of the grant to stand as a charge against the Vote.

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* See pp. 299–300.

REVENUE DEPARTMENTS.

POST OFFICE. COMMERCIAL ACCOUNTS OF TELEGRAPHS AND TELEPHONES.

Form and Purpose of Accounts.

23. The form of these accounts has been somewhat recast, following the recommendations of a Departmental Committee appointed in June 1913 to " ascertain and consider the financial results of the working by " the State of the telephone system of the country, and to advise the " Postmaster-General what surplus, if any, might be available for an " alteration of the existing rates."

Such technical questions as the rate of depreciation to be allowed for the various classes of Telephone Stores can only be decided by experts, of whom this Departmental Committee was, in part, composed, and your Committee do not feel competent to express an opinion on the matter.

CONSOLIDATED FUND ACCOUNT.

Judicial Appointments and Pensions.

24. Attention was drawn by the Comptroller and Auditor General to the payment of an annuity of £500 a year (one-half the maximum rate under the County Courts Act, 1888, 51 & 52 Vict. c. 43, sec. 24) to a County Court Judge on his retirement through ill-health, which took place in November 1912, within five months of the date of his appointment.

This modified rate was recommended by the Lord Chancellor in his discretion, and it appears that the Treasury, under the Act, have no option but to pay the amount so recommended within the limit prescribed.

The Judicial Pension List, unlike the ordinary Civil Pension List, is not, as the Comptroller and Auditor General pointed out, statutorily safeguarded by any requirement of a minimum period of public service or by graduation of pension according to length of tenure of office.

Section 8 of the County Courts Act prescribes the appointment of " fit persons " to be Judges of the Courts, and your Committee are glad to be assured that physical health is, so far as general knowledge goes, considered with other qualifications in making appointments, and that in the instance in question the breakdown was in the nature of a sudden and unforeseen catastrophe.

They think, however, that it is for consideration, not only whether some formal evidence of good health should not be required in the case of judicial as in that of other appointments to the public service, but also whether some limitation of amount of pension, either by statute or regulation, should not be adopted to meet the case of short service.

To the Lord Chancellor:—

*As regards the second question I am to advert to Sir K. M. Mackenzie's letter of 27 March last, and the reply from this Department of 9 April last, and in inquire how the question of legislation stands at present.**

TREASURY CHEST FUND.

Advances in anticipation of Vote of Parliament; Delay in Repayment.

25. The Comptroller and Auditor General drew attention to the fact that advances amounting to £120,000, to be repaid out of a Vote of

* Legislative action was taken on these questions in the Act, 9 & 10, Geo. V. c. 70.

Parliament, had been made from this Fund during 1912–13, on account of a loan to the Persian Government, this being in addition to £50,000 similarly advanced in 1911–12, and that no Vote for repayment had been taken at the date of his report (January 1914). The failure to take a Vote is being made good in the Estimates for 1914–15, more than two years after the date of the first advance.

Your Committee have considered the general question of the admissibility of such charges on the Fund with reference to the terms of the Act of 1877 (40 & 41 Vict., c. 45), which permits the Treasury to employ the fund " in making temporary advances for any public " service, to be repaid . . . . out of money appropriated by " Parliament to such service, or out of other money applicable thereto."

The Treasury maintained that their action in this case was justified on the ground of precedent (a loan to Crete specially), of the public nature of the service in an emergency impressed upon them by the Foreign Office, and of the fact that Parliament was fully informed at an early date by the presentation of papers that advances to Persia were being made. So far as the lapse of time without Vote for repayment was concerned, it was admitted that there had been a somewhat free interpretation of the word " temporary," but it was explained that there was an expectation of repayment out of a larger loan to be raised by Persia, which would have obviated the presentation of a Vote for repayment.

The Comptroller and Auditor General agreed with the Treasury as to the admissibility of the advances in question being made from the Treasury Chest Fund, a point which he had already considered before coming to a conclusion that the question of delay in repayment was the only one that he could properly raise.

He stated, however, that, in his opinion, it was desirable that in future all advances in anticipation of Votes of Parliament should, as far as possible, be made from the Civil Contingencies Fund. Your Committee are of opinion that, in cases where an advance has been made from the Treasury Chest Fund, a Vote should be taken for the replacement of the amount not later than the financial year following that in which the advance was first made, and a pledge to that effect has been given by the Treasury in the House of Commons. They think, moreover, that it will be better to restrict the Treasury Chest Fund to the purposes of banking fund, i.e., laying down money abroad to carry on the public service generally.

As stated by the Committee a pledge has been given on behalf of their Lordships in the House of Commons that, in cases where an advance has been made from the Treasury Chest Fund, a Vote should be taken for the replacement of the amount not later than the financial year following that in which the advance was first made.

My Lords take note of the view expressed by the Committee " that " it will be better to restrict the Treasury Chest Fund to the purposes " of a banking fund, ie., laying down money abroad to carry on the " public service generally."

Navy Appropriation Account.

Sale of Ships.

Independent Stocktaking in Naval Yards.

28. The Admiralty have circulated two papers which are given in Appendix No. 5, with regard, first to the Admiralty procedure in disposing by sale or otherwise of old ships, and secondly with regard

to independent stocktaking. The arrangements in both cases seem to your Committee to be satisfactory.

[NOTE.—In the first paper in Appendix No. 5 the Admiralty examine the methods of utilizing or disposing of obsolete vessels, and reach the conclusion that there is not much prospect of increasing to an appreciable extent the usefulness of obsolete ships either from the standpoint of prices realized or of the subsidiary purposes to which they can be put. It is pointed out that H.M. Ships when they become obsolete are rarely useful for further service as ships, and therefore the standard of criticism of prices must necessarily be the value as old materials.

With regard to independent stocktaking the Appendix records the decision of the Admiralty that for the test stocktaking of stores in the Home Establishments a representative of the Expense Accounts Department should be associated with the officers of the Supply Department instead of a representative of the Accountant General of the Navy (see page 420).]

ARMY APPROPRIATION ACCOUNT.

Laxity in signing Certificates.

38. Your Committee in former years have drawn attention to laxity in signing certificates by responsible Officers.* They are glad to learn that matters in this respect are improving, and are informed that it is generally understood that officers may amend or add to a certificate in manuscript, in order to make it fit the circumstances, while a certain number of certificates themselves have been amended in more general terms.

T.M. 29747/14.—My Lords do not doubt that the Army Council will continue to use every effort to bring home to officers their responsibility in signing certificates.

SECOND REPORT, 1915. H.C. 270.

Treasury Minute, 1 November 1915.

CIVIL SERVICES.

Inventories and Stocktaking of Exhibits in National Museums and Galleries.

2. Your Committee are informed that progress is being made with the surveys of exhibits in some of the Museums under the Board of Education (England), the Scottish Education Department, and the National Galleries (Scotland); and further that the Treasury are in communication with the authorities of other National Museums and Galleries with a view to arrangements being made for the compiling and checking of a more complete catalogue of the Nation's possessions.

CLASS VIII., VOTES 3 TO 6.—NATIONAL HEALTH INSURANCE.

Audit of Accounts of Approved Societies. Certification by National Insurance Audit Department.

11. The attention of your Committee was drawn to the procedure to be adopted in the case of disallowances by the Chief Auditor on the Accounts of Approved Societies. The Comptroller and Auditor General stated that as matters now stand he would be unable to admit as charges

See pages 536 and 545.

to the Vote or Fund sums so disallowed, and that up to the present no sums had been allowed by him except on the clear certificate of the Chief Auditor.

The matter is of considerable importance and urgency, as from the Report of the Chief Auditor . . . . it is seen that considerable sums have been disallowed by him.

Your Committee learn that the matter has been under consideration by the National Insurance Commissioners who have addressed a communication to the Treasury upon it, and the Comptroller and Auditor General has undertaken to bring up the question next year.

REVENUE DEPARTMENTS.

VOTE III.—POST OFFICE.

Treasury sanction of Excesses on Subheads withheld.

16. The attention of your Committee was drawn to Subheads I. (1) and (2), Salaries, &c., of the Engineering Establishment, on which there were large excesses of expenditure for which the Treasury had declined to accept responsibility. It was explained to your Committee that the Treasury required the Post Office to diminish their Estimates by a certain sum, at a time which made it very difficult for the Post Office to give detailed consideration to the manner in which it was to be done. They therefore effected the required reduction mainly on the subhead for Maintenance I. (1). As soon as it became apparent that the sum provided was inadequate for the proper upkeep, steps were taken to find the necessary funds by curtailing the programme of New Works (Subheads K and L). In all the circumstances your Committee are of opinion that the Post Office adopted the best course available, and that the excesses in question may be duly sanctioned.

My Lords now give their sanction for the excesses amounting to £289,762 19s. 3d. and £32,926 10s. 10d. respectively.

NAVY APPROPRIATION ACCOUNT.

Losses of Public Money from His Majesty's Ships.

20. The Public Accounts Committee of 1914 drew attention to the losses of public money from defalcations on board His Majesty's ships, and asked to be informed of the steps to be taken to diminish such irregularities. Your Committee are now informed that fresh regulations have been put in force by the Admiralty for restricting the amount of the cash balances on board ship. but that the question of an independent check of the cash held has necessarily been postponed owing to the war. The whole matter will, however, be carefully borne in mind, and revised regulations issued at the earliest practicable date.

FIRST REPORT, 1916. H.C. 83.

Treasury Minute, 1 September 1916.

CIVIL SERVICES AND REVENUE DEPARTMENTS.

HOUSING ACT, 1914.

Cost plus Percentage Contract.

5. Under the provisions of this Act a total issue of £2,000,000 from the Consolidated Fund is authorized. In the year under review an initial expenditure of £30,607 was incurred on the Woolwich

housing scheme. In connexion with this scheme, after a failure to obtain suitable tenders by competition, the Office of Works placed building contracts with two firms, on the basis of actual cost plus a percentage of 2½ per cent. for establishment charges, and 5 per cent. for profit, or 7½ per cent. in all.

6. Contracts of this character are, as a rule, inadvisable, as the contractor has no incentive to economy. Your Committee, however, made careful inquiries and ascertained that the Office of Works exercised close supervision over the rate of wages paid under these contracts, and that they also supplied material, on which no percentage was paid, thus ensuring that the contractor's profits were not unduly swollen.

CLASS III., VOTE 15.—LAW CHARGES AND CRIMINAL PROSECUTIONS, IRELAND.

Disallowance following Treasury Refusal of covering Sanction.

8. The Comptroller and Auditor General drew attention to the fact that the Treasury had declined to give covering sanction for an expenditure of £550 7*s*. 8*d*. (being the cost incurred on behalf of five Crown witnesses in a certain trial) on account of the excessive scale of the payments made, having regard to the class of persons to which the witnesses belonged, and that, therefore, he was unable to report that this sum was properly chargeable against the Vote. It appears that the charges were first incurred in the month of July, and lasted until December, but, although the Irish Office was aware in August that this expenditure was being incurred, it was not until the beginning of November that a newly-appointed Accounting Officer for the Vote drew the attention of the Attorney-General for Ireland to the extravagant rate of the allowance with a view to a reduction being effected. The Attorney-General informed him that he had decided not to proceed with the case, so that the expenditure would shortly cease, but that in the meantime the present arrangements must continue, and this was accepted by the Accounting Officer without further action.

9. In view, however, of the decision arrived at in 1889 on a somewhat similar case that Treasury sanction should be sought for exceptional expenditure of this kind the Comptroller and Auditor General, when these charges were brought under his audit, requested the Accounting Officer to obtain the covering approval of the Treasury. This was then applied for, but refused on the grounds that the Treasury were dissatisfied with the excessive scales of payments and with the delay in bringing the matter to their notice.

10. Your Committee, after taking evidence, are of opinion that the scale of payment was extravagantly high, and regret the delay in referring the matter to the Treasury. They therefore disallow any amounts beyond those authorized by the Treasury.

Regard being had to the observations of the Committee my Lords would not be justified in giving covering sanction for the further payments therein referred to, which accordingly remain not properly chargeable to the Parliamentary Grant.

The question, therefore, arises in what manner the deficiency in the cash balances of the Accounting Officer should be made good, and upon this my Lords will be glad to receive the views of the Irish Government. (See P.A.C. 1917, 13, at p. 580.)

CLASS VII., VOTE 3.—NATIONAL HEALTH INSURANCE COMMISSION, ENGLAND.

Certification by National Insurance Audit Department.

13. The Comptroller and Auditor General reported that considerable expenditure in respect of benefits and adminstration expenses had been incurred by approved Societies and Insurance Committees out of issues made to them from the several National Health Insurance Funds which cannot be certified by the National Insurance Audit Department as incurred in accordance with the Act and the regulations made thereunder.

14. The whole question has been carefully considered by the Insurance Commissioners, and a scheme for dealing with these transactions has been submitted by them to, and approved by, the Treasury. Correspondence on the subject between these Departments has been laid before your Committee. No record of any of these transactions has yet appeared in the accounts either of the National Health Insurance Funds or of the several Votes, but your Committee understand that the scheme provides for irregular payments being clearly exhibited in the accounts of the Societies or Insurance Committees concerned, and that they will invariably be brought to the notice of the Comptroller and Auditor General, who will report in due course the results of the working of the scheme.

15. Under the arrangements made, improper expenditure will be borne by the National Health Insurance Fund (that is to say, by the contributions and by moneys provided by Parliament) only to the extent of any saving realized by the Society on the amount allowed for expenses of administration by the regulations under section 35 (2) of the Act, and your Committee note that the question of including specific provision on the subject in the next amending Bill is under consideration. Your Committee have no objection to offer to these arrangements at the present stage.

Power of Surcharge.

16. Doubts were expressed whether the method of dealing with irregular expenditure proposed for Approved Societies would produce equally satisfactory results in the case of Insurance Committees in view of the difference of circumstances and of the absence of a power of surcharge. Your Committee share those doubts, and they see no reason why in the case of Insurance Committees, the same power to surcharge individual members who are parties to irregular transactions as has been applied by law to members of local authorities should not be introduced. They accordingly recommend that legislative provision should be made to that end.

To the National Health Insurance Joint Committee.

I am to ask that their Lordships may be favoured with any observations which you may desire to offer with regard to the recommendation that legislative provision should be made conferring, in the case of Insurance Committees, the same power to surcharge individual members who are parties to irregular transactions as has been applied by law to members of local authorities—a view which my Lords are prima facie *disposed to share.**

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* See P.A.C. 1917. 14 at p. 580.

Changes in Form of Estimates.

17. It was also brought to your Committee's notice, in the correspondence dealing with the treatment of irregular payments, that in the Estimates for 1915–16 provision was made for the payment of the Exchequer proportion of benefits on an entirely new basis, viz., on the probable amount of expenditure as actuarially calculated instead of as heretofore on the amount of expenditure passed on audit. Attention is drawn to the alteration by a note on the Estimate, but your Committee are of opinion that in accordance with the practice of many years, changes in the form of the Estimates should be submitted to the Public Accounts Committee before being carried into effect, and they must express their regret that this procedure was not followed in the present instance.

The Committee record their opinion that, in accordance with the practice of many years, changes in the form of the Estimates should be submitted to the Public Accounts Committee before being carried into effect. This principle has long been recognized and acted upon by their Lordships before any changes are introduced in established forms of estimate. The form of the National Health Insurance Commission Estimate was, however, at the time when the change to which the Committee refer was made, still in the experimental stage, and had in practical working exhibited serious defects which called for immediate remedy. As their Lordships are responsible for the original form of estimates for new services, they cannot, without detriment to the public service, forego a certain amount of latitude in regard to the amendment of a form tentatively adopted. They are however, most anxious to consult the Committee in all such cases, wherever considerations of time permit, and, as the form of the National Insurance Estimates may now be regarded as having passed the experimental stage, they recognize that for the future the general rule should be regarded as fully operative in regard to the Estimate for these services.

AUDIT OF ACCOUNTS OF APPROVED SOCIETIES AND INSURANCE COMMITTEES.

Delay in rendering Accounts.

19. The audit of these accounts is carried out by the National Insurance Audit Department appointed by the Treasury under section 35 (1a) of the Act of 1911.

The Report of the Chief Auditor on the work of the Department is presented annually to Parliament, and the attention of your Committee was drawn to the fact that in many cases the audit was seriously delayed because the Head Offices of the Societies either did not communicate to the Branches the remarks of the Auditor or did not exercise pressure upon the Branches to render their accounts duly completed for audit at the proper date. There have been instances where accounts have been outstanding for 2½ years, but your Committee were informed that, on the whole, the cases of arrears were not numerous and that there was reason to believe that a gradual improvement was taking place.

20. Your Committee trust that this expectation may be fulfilled, for these delays impede the audit and thus prevent the expenditure being brought to account, as brought to notice in the reports of the Comptroller and Auditor General.

21. Your Committee, further, are of opinion that in cases where the Chief Auditor draws attention to serious delays in the rendering of accounts severe action should be taken by the Insurance Commissioners

by withholding advances of funds and other necessary measures; and they propose to watch the results in future years.

You will observe that the Committee express the opinion that in cases where the Chief Auditor draws attention to serious delays in the rendering of accounts severe action should be taken by the Insurance Commissioners by withholding advances of funds and other necessary measures.

CLASS VII., VOTE 7.—LABOUR EXCHANGES AND UNEMPLOYMENT INSURANCE.

Losses involving Suspicion of Fraud.

28. The attention of your Committee was drawn to losses due to officials of the Labour Exchanges. The inquiries they made do not satisfy them that the Board of Trade is sufficiently alive to the duty of prosecuting cases of real fraud. There are, no doubt, sometimes cases with extenuating circumstances, but they should be carefully scrutinized, and your Committee support the action of the Treasury when they state that they will not be able to sanction the charge of the loss in question against the Labour Exchanges and Unemployment Insurance Vote unless either a prosecution has been attempted or the Board have been advised by their legal advisers that the evidence available is not such as will secure a conviction.

SECOND REPORT, 1916. H.C. 115.

Treasury Minute, 29 December 1916.

NAVY ACCOUNTS.

FORM OF THE ACCOUNT DURING THE WAR.

1. The Navy Appropriation Account presented to Parliament is, in effect, confined (i) to the abstract, with the expenditure under certain main Votes grouped together, (ii) to particulars of balances irrecoverable, and (iii) to certain correspondence. The Board of Admiralty represented that it would be detrimental to the public interest to publish further information at the present time, to which the Treasury on 27 December 1915, agreed, saying, however, " that Parliament should " be informed of the proposal at once, and that an undertaking should " be given by the Lords Commissioners of the Admiralty that infor- " mation will not be withheld when the objections to publicity no " longer apply." Your Committee are informed that the accounts have been prepared as far as possible in the full manner of former years, and submitted to the Comptroller and Auditor General* for his examination, and points connected therewith are mentioned in his Report.

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* These accounts, showing the classification of expenditure and receipts under the customary subheads, were also submitted to the Public Accounts Committee *in camera*, and the same procedure was followed with the accounts for 1915-16 and 1916-17. The accounts for these three years were subsequently published and laid before Parliament in this form early in 1919 as Cmd. 111. The account for the year 1917-18, presented to Parliament in March 1919, was as nearly as practicable normal in form, regard being had to the absence of detailed Estimates with which the expenditure of the year could be compared.

Your Committee agree to the limitation of the information now made public, on the undertaking, as twice specifically given in Parliament, that nothing should be withheld from the Comptroller and Auditor General, and that the full accounts will be published at the earliest moment that it can be done without detriment to the public interest.

The Admiralty further requested that, while the evidence was taken down as usual and submitted to Members for correction, the question of its ultimate publication should be reserved, and, moreover, that certain documents submitted to the Committee should be treated as confidential. Your Committee assented to this, and propose to consult both the Admiralty and War Office before the evidence in full is published.

Part of the examination of witnesses and consideration of documents has been held *in camera*.

Emergency Procedure arising out of the War.

Treasury Control.

3. Special measures were adopted for maintaining Treasury control over Naval expenditure without the delay that necessarily occurs in the ordinary course of official correspondence. A special Treasury Committee, including an Admiralty representative, was appointed and empowered to sanction on behalf of the Treasury all urgent proposals which appeared to them to be proper for adoption and which did not raise questions of such importance as to require a formal reference to the Treasury itself. Your Committee are informed that the good results anticipated from the system have been fully attained.

Vote "A."—Numbers.

Excess regularized by Supplementary Vote.

4. The total number voted to 31 March 1915, was 250,000, but the number actually borne at that date was slightly in excess. It was represented to your Committee that it was impossible to find out accurately the number borne by 31 March, but that, as soon as the excess was realized, steps were taken to regularize it by means of a Supplementary Vote which was passed on 30 June 1915. Your Committee are of opinion that the Admiralty duly complied with the terms of the Treasury Minute of 1880, which laid down that "whenever material excess over the numbers voted is foreseen as inevitable, "or is known to exist, and a reduction cannot be immediately effected, "Parliamentary consent to such excess should be obtained as soon as "possible."

Vote VIII. Sections II and III.—Shipbuilding Materiel and Contract Work.

Cost plus Percentage Contracts.

7. The system of repairing ships at contractors' yards on the net cost plus percentage basis was introduced in 1902–3 because the Royal Dockyards had got into arrears. Some work had to be put out to private yards and the system was tried as an experiment. But it was found to be too costly, and as soon as the arrears had been overtaken was abandoned.

At the time the War broke out the Admiralty communicated with the Senior Naval Officers on the policy to be pursued in the matter

of repairs in private yards. They were instructed to obtain tenders if time permitted, or else to make the most advantageous terms they could with any competent firm. The Admiralty allowed the adoption of the net cost plus percentage system, but stated very fully the objections to which it was open, and reminded the officers of the assurance which had been formally given to Parliament that resort would not be had to this system except in cases of very great emergency. The sequel proved that, in consequence of the extreme urgency of the work, there was no alternative but to adopt the system almost entirely for repairs, since speed in effecting them was of primary importance.

8. A contract form was approved by the Board after having been settled with the Treasury Solicitor, and the technical officers appointed to inspect the work were instructed to check the materials and labour charged to the ship or job by a comparison of their notes with the cost and time accounts of the contractors. The rates of establishment charges are checked by a specially qualified staff of the Accountant-General's Department (some of whom are Chartered Accountants), having access to the books of the firms concerned.

9. Your Committee inquired whether, with regard to contracts entered into under this system, care had been taken to give the Admiralty authority to stop extravagances in the prices given for materials, the number of men employed, and rates of wages paid. They were told that it was the duty of the local technical officers to report all such cases, but that, as ships were generally sent in when a very limited time could be allowed for effecting the necessary repairs, it was difficult to judge these things; that extravagances were reported from time to time to the Admiralty, and, in some cases, apparently few, action had been taken upon them.

10. Your Committee, while admitting that certain safeguards against extravagance have been adopted as compared with the system in force in 1902, are of opinion that more specific powers of control over rates of wages and prices of materials should have been taken in the forms of contract, with a view to securing all due economy.

11. As regards new construction, although, where possible, competitive tenders continued to be invited, in many cases the net cost basis was also adopted.

My Lords are confident that their Lordships of the Admiralty recognize the disadvantage inherent in placing contracts on the "net cost plus percentage" system, and will confine this type of contract strictly to the class of case in which for special reasons no alternative is possible. In their opinion, wherever practicable, steps should be taken to secure that the contractor shall at least have no interest in charging excessive prices or paying excessive rates of wages, e.g., by an arrangement under which the contractor should receive a fixed fee for his services even when it is necessary for the Admiralty to pay actual cost of wages and material.

VOTES VIII AND IX.—PURCHASE OF SHIPS, GUNS, AND OTHER MATERIAL.

Investigation of Contractors' Books before settling Prices.

12. The Admiralty found it necessary to modify to some extent their method of obtaining supplies and of meeting their general requirements, and to abandon in great measure the practice of inviting competitive tenders and placing their contracts on quotations furnished by selected firms; sometimes ships even being ordered and placed under

construction before agreement as to price was reached. Your Committee were informed that the urgency of the work compelled the adoption of this plan, but that in no case was the fixing of the price delayed beyond what was reasonable, nor were contractors allowed to protract the time for sending in their quotations. In the case of ships, some standard of comparison was possible, as somewhat similar ships had been built before, both in the Dockyards and privately, and, therefore, a rough-and-ready calculation could be made as to the cost.

13. With regard to the supplies of ammunition your Committee have had the advantage of hearing evidence from representatives of the Ministry of Munitions as to their methods of settling prices with contractors.

By instituting a system of actual costing of the various shells and other supplies, coupled with the powers conferred by the Munitions Act and Regulations under the Defence of the Realm Act, the Ministry has been able to effect substantial reductions in prices as compared with those paid in the early stages of the war, notwithstanding the increased cost of labour and material.

Your Committee examined the Admiralty witnesses to ascertain whether any similar system was in force in that Department.

From their evidence it appears that they have had no data as to the actual cost price of such supplies as shell and guns, and that their method of purchase was to invite tenders, and to determine the reasonableness of the prices asked solely by regard to previous prices and the opinions of the professional officers.

Quite recently, however, the Admiralty have placed orders for shell, leaving the price to be settled later on, and have called upon certain firms to produce the certified cost of their shells, and are employing skilled accountants to investigate the firms' books.

14. It is greatly to be regretted that no such system seems to have been adopted before the War, in order to break down rings which were known to exist among contractors, and that, even now, with the experience of the Ministry of Munitions, the system is being but slowly introduced; so that prices paid by the Admiralty for shell and other supplies show no such reduction from the rates ruling just after the commencement of the War, as has been effected by the Ministry of Munitions.

The Committee observe that by the employment of the cost accounting system the Ministry of Munitions have been able to calculate the proper prices of various calibres of shell and to effect considerable reductions on the prices paid to contractors in the early stages of the War.

My Lords have had before them the letter from their Lordships of the Admiralty dated 22 November, 1916, containing a more ample statement of the practice of the Admiralty in negotiating with contractors than was given to the Committee by the Admiralty representatives. They think it will be desirable that a copy of this letter should be submitted to the Public Accounts Committee for their information. They trust that the Board of the Admiralty will take every practicable step, including the use, when necessary, of powers under the Defence of the Realm Act Regulations, to effect reductions in prices charged by the contractors.*

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* See Appendix No. 7 to P.A.C. Report 1917. The statement was not published in full.

ARMY APPROPRIATION ACCOUNT.

FORM OF THE ACCOUNT DURING THE WAR.

21. The Appropriation Account for 1914–15 has no fundamental change dictated by public interest, though various detailed statements are omitted. The Comptroller and Auditor General has had access to all necessary documents and records, and his audit has been in no way affected.

EMERGENCY PROCEDURE ARISING OUT OF THE WAR.

Treasury Control.

23. The Treasury Minutes of 8 December 1914 (*see below*) and 29 January 1915, which were laid before Parliament,* explained such relaxation of the normal Treasury control as was necessitated by the War. It was provided *inter alia* that Treasury sanction should not be required for expenditure certified to be vitally necessary to the public interest and to have been incurred under such conditions of urgency that it could not be submitted to the Treasury beforehand. All certificates given under this Minute are signed by the Financial Secretary on the authority of the Secretary of State, and it was stated that, though occasionally the Department was committed to expenditure before the Certificate of Urgency was obtained, the Finance Member speedily made it clear that he would refuse to give the necessary certificate unless he was asked before the expenditure was incurred. It is stated that this procedure has been made use of by the War Office almost wholly in connexion with building services.

24. Your Committee are informed that the organization of the War Office did not lend itself to a Joint Committee with the Treasury such as was instituted in the Admiralty. The Treasury Minute of 29 January 1915, related in the main to contracts for guns, small arms, and ammunition, with regard to which speed was of paramount necessity. It therefore provided that contracts should be concluded by the War Office without reference to the Treasury, although involving terms which would, in normal times, require Treasury sanction, but it urged strongly on the Army Council the desirability of taking every possible step to secure the most economical terms consistent with the requirements of the public service. The special financial provisions which the War Office found it necessary to adopt under the powers given them consisted mainly in assistance to contractors for the erection of buildings and plant, and in the period under review generally took the shape of (a) actual grant of capital, subject in some cases to a proportionate refund if the promised output were not realized; or (b) the advance of capital secured by repayment at specified intervals or by fixed deductions from bills for finished products. In some few cases orders to erect plant, etc., and promises of financial help were given before the agreement was definitely settled, with the result that the Department found itself considerably hampered in subsequent negotiations.

TREASURY MINUTE DATED 8 DECEMBER 1914.

1. The Lords Commissioners of His Majesty's Treasury have under consideration the question how far it is possible to continue the operation of the usual control by the Treasury over Army expenditure during the existence of a state of war, and the modifications which it has become necessary to introduce into the existing practice to meet the conditions thereby created.

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* H.C. 325, presented 28 July 1915.

2. In normal times the control of the Treasury over Army expenditure under its general powers or under the provisions of the Exchequer and Audit Departments Act, 1866, is exercised through the ordinary machinery of official correspondence. Such a procedure necessarily involves delay when further information or explanation is required by their Lordships beyond that furnished in the original application by the Army Council. On the other hand, in times of war it is frequently essential in the national interests that decisions involving large expenditure should be taken and acted upon with rapidity. The delay incidental to official correspondence might, in such cases, have very serious and even disastrous consequences.

3. These difficulties have been diminished, although not entirely obviated, in the case of the Naval expenditure by referring urgent questions arising out of the war to an Emergency Committee, to the Treasury representatives upon which my Lords have entrusted the power of sanctioning on their behalf all urgent proposals which may appear to them to be proper to be adopted and which do not raise questions of policy of such importance as to require a formal reference to the Board. Their Lordships understand, however, that the departmental machinery of the War Office does not lend itself conveniently to this procedure, while, in any case, the very much larger scale on which Army expenditure is taking place would necessitate frequent and prolonged sittings of the Committee (which must necessarily consist of responsible officers of high rank), to the serious prejudice of other business requiring their attention.

4. There appears, therefore, to be no alternative to entrusting the Army Council with very wide powers of incurring expenditure upon urgent services without previous reference to the Treasury.

5. Section 27 of the Exchequer and Audit Departments Act, 1866, provides that " whenever the Comptroller and Auditor General shall " be required by the Treasury to ascertain whether the expenditure " included or to be included in an Appropriation Account, or any " portion of such expenditure, is supported by the authority of the " Treasury, the Comptroller and Auditor General shall examine such " expenditure with that object, and shall report to the Treasury any " expenditure which may appear upon such examination to have been " incurred without such authority; and if the Treasury should not " thereupon see fit to sanction such unauthorized expenditure, it shall " be regarded as being not properly chargeable to a Parliamentary " Grant, and shall be reported to the House of Commons in the " manner hereinafter provided."

6. Apart from the requirements of special Acts, the necessity for Treasury sanction for any particular class of expenditure depends so far as the statute law is concerned on the directions given by their Lordships under the above-quoted provision, and it is open to the Treasury to exclude altogether any classes of expenditure from the category requiring Treasury sanction by not requiring the Comptroller and Auditor General to satisfy himself that Treasury sanction has been given.

7. It has, however, been the general practice of the Treasury in the past to require Treasury sanction for all expenditure out of voted moneys, and exceptions have only been made in regard to particular categories of expenditure of a special character, with regard to which free discretion has been given to departments subject to the limits of amount specified in the Estimates or special limits laid down by the Treasury. In cases not falling within these categories in which departments are bound for reasons of urgency to take action without previous Treasury sanction, covering sanction is given after the event whenever, upon the information furnished, the Treasury is satisfied as to the necessity for the action taken.

8. It is clear, however, that if the expedient of covering sanction has to be applied to any large percentage of the total expenditure on any service the discretion to give or withhold such sanction is in

practice destroyed (since the effect of withholding is to exclude the charge from the Appropriation Account, and if such exclusion took place in regard to large amounts the whole machinery of public finance would be disorganized), and that the power of effective control by the Treasury over the service as a whole consequently disappears.

9. In these circumstances the expedient of meeting the difficulty by a general resort to the practice of covering sanction appears to my Lords to be undesirable, regard being had to the fact that such sanction would be reduced to a mere formality and would have the appearance of providing a safeguard which in practice would be non-existent.

10. My Lords have, accordingly, decided to waive for the time being the requirement of Treasury sanction to Army expenditure to the extent and in the manner set forth below.

11. As from the date of this Minute until 31 March next* or until the conclusion of hostilities, should that first occur, Treasury sanction will not be required for any expenditure from Army Votes which is certified by or under the authority of the Secretary of State for War as vitally necessary to the public interest and to have been incurred under such conditions of urgency that it could not be submitted to the Treasury for sanction before it was incurred, provided always that such exemption shall not extend to:—

(*a*) Any expenditure for which Treasury sanction is necessary under specific statutory provision.

(*b*) Any increases in military or civil establishments not being increases for the period of the war only.

(*c*) Any increases in the personal remuneration or allowances paid to officers or men of the Army or persons employed by the Army Council under engagements lasting beyond, or likely to be continued beyond, the period of the war.

(*d*) Any departures from general Civil Service rules or variations of general Civil Service rates of remuneration.

(*e*) Non-effective payments and *ex gratia* payments of any kind (e.g., pensions, gratuities, payments in excess of contract prices, &c.).

(*f*) Expenditure for purchase of land.

(*g*) Expenditure in respect of buildings or other works of a permanent or semi-permanent nature (i.e., other than buildings or works of a purely temporary and emergency character designed for use during the war only).

12. Certificates given by or on behalf of the Secretary of State under this Minute shall be transmitted to the Comptroller and Auditor General with the accounts in which the expenditure is included.

13. Any expenditure in respect of which such a certificate is given shall be reported by the Army Council with full explanations for the information of the Treasury as soon as may be.

14. No such certificate shall be issuable in respect of any expenditure for which Treasury sanction has already been asked and refused, or (without the consent of the Treasury) in respect of any expenditure for which Treasury sanction has been asked but not obtained at the time of issue.

15. It will, of course, be open to the Comptroller and Auditor General to comment on the use of the special powers given to the Secretary of State for War by this Minute and to call the attention of the Treasury to any cases in which they may appear to be

* The operation of this Minute was extended from time to time until December 1917, when it ceased to apply to expenditure incurred outside the United Kingdom. Normal procedure was resumed shortly after the Armistice of 11 November 1918.

exceeded, and to report generally to Parliament upon the working of the arrangement.

16. In order to secure that the position of the Treasury should not be prejudiced in regard to the provision necessary to meet national expenditure, periodical forecasts of the total Army expenditure to the end of the financial year should be furnished at intervals of not less than one month, and before the certificate of the Secretary of State is given for any expenditure necessitating an excess on the last approved forecast reference should be made to the Treasury.

17. The operation of this Minute is limited in the first instance to the current financial year, at the end of which the question will be reconsidered in the light of the experience gained.*

CONTRACT PROCEDURE.

Settlement of Prices under War Conditions.

25. It was soon found necessary to alter in various ways the normal procedure in relation to contracts in regard to (a) the extension of the areas of supply, (b) the occasional abandonment of the system of competitive tender, and (c) the employment of expert agents for the purchase of supplies and stores.

26. The normal system of buying for Government in peace time is by competitive tender; as a rule among a limited number of firms considered capable of meeting requirements. It was explained to your Committee that, however large a list of firms you might wish to have, it would inevitably come down to a limited number who would tender for any particular article, as the amount of Government requirements would not be sufficient to tempt more than a few manufacturers to provide the necessary plant and patterns; but your Committee feel strongly that in the interest of economy every effort should be made to make the area of competition as wide as possible.

27. In answer to the inquiry as to whether in normal times there was in the War Office any branch dealing with and checking the prices asked by contractors for various materials, your Committee were informed that the accounts of the Arsenal at Woolwich give a very valuable guide, although not exactly comparable with trade prices.

28. On the outbreak of war the peace system was modified as being too slow to meet the requirements of the Army, and the War Office at once resorted to direct negotiation, appointing expert agents to go round and buy from stock, or negotiate direct deals with the manufacturers. The whole procedure, however, was soon found to be unsatisfactory, as Government were taking nearly as much as some industries could produce, and in some cases wanted far more, so that all the goods offered had to be accepted irrespective of prices. A method, therefore, had to be devised, which should secure supplies for the Army and yet protect the public interest by seeing that the prices paid were fair and reasonable. This took some time to evolve, but in June, 1915, the War Office began to require manufacturers, in submitting their prices on tenders, to justify those prices by giving a statement of the costs of manufacture; and, *in cases* where these were clearly exorbitant, negotiations were entered into to reduce the prices asked. Further developments took place from time to time,

* See footnote on page 566.

and culminated at length on 15 February, 1916, in an Amendment to the Defence of the Realm Regulations, by which power is given, in the last resort, to requisition the output of any factory in the country, and to pay for that output a fair agreed price, which the contractor has to show to be reasonable by producing his costs of manufacture and satisfying the expert advisers of the Department. This has had the effect of breaking up and preventing combinations of manufacturers against the Government.

Accounts of the British Expeditionary Force in France.

Financial Adviser and Trained Accountants in the Field.

33. The desirabilty of the appointment of a Financial Adviser and Local Auditor in the Field was strongly emphasised by the Committee of Public Accounts of 1902 and 1905,* and it is satisfactory to know that the recommendation has been adopted in France with good results.

Indian Expeditionary Force.

Accounts accepted on evidence of independent Audit.

34. The expenditure of this Force is audited by officers of the Government of India either at home, in India, or in the Field, and the War Office, with the consent of the Treasury, accept that audit, Army Votes being charged and credited in accordance with the Abstract of Receipts and Payments rendered by the War Office. Your Committee are informed that the Comptroller and Auditor General has no difficulty in accepting the charges against Army Funds, as they are most carefully and minutely audited by the independent Audit Department of the Indian Government.

Store Accounts of the Army.

Accounting for Stores and Supplies on Active Service.

64. In 1907, it was decided by the Army Council, with the approval of the Treasury, that equipment and clothing accounts should be dispensed with on active service in the case of units in the field and on lines of communication, and that accounting for supplies, animals, and stores should not be carried beyond the depots, an arrangement in which the Committee of Public Accounts in their Second Report for 1908 concurred.†

In the exceptional circumstances of the present campaign, accounting has now been instituted in the case of hospitals and advance depots which did not keep store accounts under the original scheme, and, broadly, the arrangement is that everyone who holds stores for issue to others shall keep an account of them.

Vote of Credit.

Magnitude and Scope of Vote.

68. On the outbreak of war a Vote of Credit was taken for £100,000,000 and subsequent Supplemental Votes for £225,000,000 and £37,000,000, making a total provided in 1914–15 of £362,000,000. These Votes were drawn in the widest terms and provided for all measures to be taken for security of the country, the conduct of naval and military operations, and for most of the expenses arising out of the existence of a state of war.

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* See P.A.C. 3, 1902, 4 and 8. 1905. 19 at pp. 442 and 475 respectively.
† See p. 503.

Provision by Vote of Credit instead of by Supplementary Estimate.

69. The Treasury in their Minute of 20 August, 1914, explained that the emergency was such as to involve special expenditure, not only under the heads of Navy and Army, but in Civil Departments also, the amount and scope of which were at that time incapable of estimate or definition, and that, in these circumstances, it was necessary to have recourse to a Vote of Credit rather than a Supplementary Estimate, although the latter had frequently been recommended by the Public Accounts Committees of former years as tending to secure the greatest amount of information and control by the Treasury and ultimately by Parliament.

70. Your Committee acquiesce in the Treasury decision, and for this further reason that not only could Supplementary Estimates have been merely token ones unless there was to be undue disclosure of war plans and provisions, but also that, under a Vote of Credit, it was likely that less would have to be eventually surrendered than if apparently sufficient margins had to be provided on each of many separate Supplementary Votes.

The difficulty of estimating even for a Vote of Credit is illustrated by the fact that at the beginning of March 1915 it became clear that further sums would be required, and £37,000,000 was voted; in the result a very large payment could not be made within the financial year and there was a surplus of £25,000,000.

71. It was provided generally that the allocation of the Vote of Credit was kept in the hands of the Treasury, and the Departments who required to spend money on Services covered by it had to apply to the Treasury for the needed sums to be placed at their disposal. In the case of the Navy and the Army complete statements were furnished month by month, showing the actual approximate expenditure up to date, the actual expenditure for the previous month, the estimated requirements for the current month, and a rough estimate for the next.

Method of Accounting.

72. The Treasury Minutes of 20 August, 1914 (H.C. 458/1914) and of 22 November, 1915 (H.C. 392/1914–16), dealing with expenditure arising out of the War laid down the procedure which has been adopted, viz:—(a) Where such expenditure incurred by Civil Departments is entirely outside the ambit of any Parliamentary Estimate it is charged direct to the Vote of Credit; (b) in the case of war expenditure which falls within the purpose of a Civil Vote, it is brought to account under existing subheads (or, when necessary, under special subheads) of the Vote concerned and any deficiency attributable to such war expenditure charged against the Vote of Credit.

TREASURY MINUTE OF 20 AUGUST 1914, RELATING TO THE VOTE OF CREDIT.

1. My Lords take into consideration the arrangements to be made for apportioning and accounting for the Vote of Credit for 100,000,000*l.* granted by the House of Commons on the 6th instant, in the following terms, viz.:—

> "That a sum not exceeding 100,000,000*l.* be granted to His Majesty beyond the ordinary grants of Parliament towards defraying the expenses which may be incurred during the year ending 31 March 1915, for all measures which may be taken for

the security of the country; for the conduct of Naval and Military operations; for assisting the food supply; for promoting the continuance of trade, industry, business, and communications, whether by means of insurance or indemnity against risk or otherwise; for relief of distress; and generally for all expenses arising out of the existence of a state of war."

2. The financial procedure to be adopted in the case of votes for special emergencies of the kind now in question has from time to time engaged the attention of the Public Accounts Committee and of this Board, and the Committee have expressed the view that in order to secure to the Treasury and to Parliament the greatest amount of information and control with respect to the expenditure which has to be met procedure should be by way of Supplementary Estimate rather than by a Vote of Credit.

3. In this view the Board of Treasury has generally concurred; it undertook, as long ago as 1880, that "wherever practicable "... a war not provided for in ordinary Estimates should be "provided for by means of Supplementary Estimates for the Army "or Navy, as the case may be, and not by a Vote of Credit," and this procedure was adopted in the case of the South African War.

4. On the present occasion their Lordships were confronted with an emergency which must necessarily involve special expenditure (not only under the heads of Army and Navy, but in Civil Departments also) the amount and scope of which are as yet incapable of estimate or definition.

In these circumstances they have found themselves obliged to resort to the precedent, last adopted in 1885, of a Vote of Credit, and this Vote has necessarily been drawn in the widest terms.

5. For the guidance of the various departments now concerned, their Lordships think it desirable first to set out the principles which, after careful consideration, have from time to time been formulated by the Public Accounts Committee for dealing with Votes of Credit, and then to specify how far these principles may be applied to the existing situation.

6. The nature of a Vote of Credit is thus described in the Treasury Minute of 1 February 1880:

"... a Vote of Credit differs from (e.g.) ordinary Army "and Navy Votes, inasmuch as it is taken not by the Army and "Navy Department but by the Treasury.

"The House of Commons, in fact, dispenses for the time with "its power of control, ... [*the omitted quotation will "be found on page* 95].

"... my Lords are aware that the procedure which "they have sketched is descriptive of their intention rather than "of any uniform practice hitherto, but they have thought it "desirable, since the question has been brought before them, to "place their opinion on record ...."

7. The following rules have also been laid down:—

The accounts relating to the ordinary services of a year should be kept distinct from those relating to extraordinary services.

However wide may be the terms of the Vote of Credit, the charge against it must not exceed the aggregate of the sums which the spending Departments can identify as *directly* occasioned by or for the event or object to meet which the Vote was taken. A Vote of Credit must not be considered as applicable to meet deficiencies on ordinary Votes; and the surpluses and deficits on ordinary grants must be clearly exhibited.

A Vote of Credit is now so drawn as to be applicable only to a single financial year.

So far as possible a Department should mark separate vouchers for expenditure as appertaining to a Vote of Credit.

A Vote of Credit may be applied to meet a deficiency in Appropriations in Aid arising out of the emergency for which the Vote was granted.*

As regards issues to the Paymaster-General the ordinary grant has always first to be exhausted before resort is had to an issue out of the Vote of Credit.

On the conclusion of peace, expenditure should be terminated as promptly as possible.

8. My Lords now proceed to indicate how far these principles must be modified in view of the present situation.

The emergency to meet which the Vote of Credit was granted on the 6th instant developed with such rapidity, and the scope of the expenditure for which it might call was and is still, as already stated, so incapable of definition, that it was quite impracticable for the Departments concerned to present to the Treasury, or for the Treasury to submit to Parliament in support of the Vote, any general scheme of the expenditure proposed to be incurred.

9. But their Lordships must now request public Departments to submit for their approval and for the information of Parliament at the earliest practicable moment the best estimate they can frame of their probable requirements.

10. So far as Civil Departments are concerned, i.e., all Departments other than the Admiralty and the War Office, my Lords recognize that it is impossible at the present moment to calculate the sums that may be required, e.g., for assisting the food supply, for promoting the continuance of trade, industry, and business, or for the relief of distress; nevertheless their Lordships rely upon Departments to submit for their approval as soon as they are framed any schemes which involve expenditure for these purposes and to do their best to indicate their cost, either by estimates of the total expenditure involved or by calculations as to the probable outlay per week or month according to circumstances.

11. In all such cases where schemes have been initiated and expenditure is being incurred it is essential that their Lordships should be kept informed of any circumstances which may affect either the estimate of the aggregate expenditure or the rate at which it will be incurred, and they should be furnished with monthly statements of the total payments made in respect of Vote of Credit services.

† 12.—(*a*) As regards the form of accounts, little difficulty arises when services fall within the ambit of Part I. of the Parliamentary Estimate. The existing subheads should be preserved as far as possible—the expenditure from each under the ordinary Vote and the Vote of Credit being shown separately. In such instances the account for the Vote of Credit—which will be prepared in the Treasury—will merely show the amount issued to the Department concerned; and the Department will account for its original Vote as supplemented by the issue.

(*b*) Where services are entirely outside the ambit of any Parliamentary Estimate the Treasury will issue the necessary funds to the responsible officer or Department by way of imprest to be accounted for to the Treasury and will in due course annex to its account of the Vote of Credit a schedule, prepared by the officer or body to

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* NOTE.—It may be useful to draw attention to the fact that receipts surplus to the estimated Appropriations in Aid, whether arising out of the emergency or not, were not available to reduce the charge on the Vote of Credit for excess expenditure. Such surpluses were accordingly surrendered in the customary manner, except in so far as due Parliamentary sanction was given, by Supplementary or Excess Vote, to their application in aid of the Votes on which they arose. The latter procedure obtained where "token" Votes had been substituted for normal methods of Supply.

† The directions in paragraphs 12 and 13 were modified by the Minute of 22 November 1915 which follows.

whom the imprests have been made, showing the detailed application of the expenditure.

Any intermediate cases can be considered as they arise.

13. Subject to these modifications the apportionment and accounting of the Vote of Credit will proceed in accordance with the principles recited in paragraphs 6 and 7 of this minute and their Lordships need not revert to them in detail.

But they would emphasize the recommendation that Departments should at once begin to earmark special expenditure chargeable to the Vote of Credit as opposed to expenditure chargeable to ordinary grants. Vote of Credit orders and vouchers should be specially marked by stamping or otherwise; and it must always be borne in mind that the charge against the Vote of Credit must not exceed the aggregate of the sums which the spending Departments can identify as directly occasioned by or for the event or object to meet which the Vote was taken.

14. With regard to the expenditure incurred by the Admiralty and the War Office, my Lords would have been glad if the same procedure could have been followed. They have, however, received representations from the Army Council which satisfy them that the procedure laid down in the past and prescribed above for Civil Departments is not applicable in the present emergency to military and naval expenditure.

15. As the Army Council state, it is no longer a question of a peace system continuing in operation in the Empire as a whole, disturbed by a local war in some one part; but of the placing of all the military and naval resources of the country simultaneously on a war footing. Under these conditions, any attempt to record peace expenditure in detail against peace estimates must be largely futile.

16. My Lords concur with the view which the Army Council and the Lords Commissioners of the Admiralty have taken as regards expenditure incurred by the War Office and the Admiralty. These Departments exist for the purpose of the preparation and training for war, and when a war such as the present breaks out, the conduct of which involves the entire naval and military resources of the State, practically the whole of their expenditure is *ipso facto* transformed into war expenditure. It would in their Lordships' opinion be impossible to distinguish for accounting purposes between the ordinary expenditure for such services as pay and the supply of fuel upon a peace basis and the expenditure under these heads directly attributable to war.

17. My Lords consider, therefore, that they will best discharge the duty imposed upon them by the action of Parliament by regarding the whole of the ordinary grants for Army and Navy Votes as available for war expenditure equally with so much of the Vote of Credit as may be required for Army and Navy services, and by calling on the two Departments to furnish estimates of their expenditure in a form to be approved by their Lordships, classified so far as may be possible according to the ordinary Votes, distinguishing non-recurrent expenditure from recurrent, and stating the probable weekly amount of the latter.

Treasury sanction to such estimates would cover all ordinary expenditure included in them in the same way that Treasury sanction to the totals of the normal Estimates for the Army or Navy covers all ordinary expenditure provided for in those Estimates.

18. The whole of Army and Navy expenditure will be brought to account under the Votes and subheads provided in the Parliamentary Estimates or such special subheads as may be required, and the amount by which the expenditure exceeds the Supply Grants for the Army and Navy will be charged aganist the Vote of Credit. If savings arise on any Army and Navy Votes, my Lords will be prepared to authorize their application to meet excesses involved by war expenditure on other Army and Navy Votes in the same manner as such savings are ordinarily utilized.

19. It is of the greatest importance that their Lordships should be kept informed by monthly returns of the total amount of the orders for payment which have, in fact, been issued by the Admiralty and the War Department, and they should also be advised of any circumstances which affect estimates previously sanctioned in respect of either aggregate liability or rate of expenditure.

20. All applications for issues from the Vote of Credit, whether by way of imprest, as in the cases contemplated in paragraph 12 (*b*) above, or, as in the case of the Army and Navy and in the circumstances indicated in paragraph 12 (*a*), to supplement the ordinary Parliamentary Grant, should be addressed direct to this Department.

TREASURY MINUTE OF 22 NOVEMBER 1915, RELATING TO THE VOTE OF CREDIT.

My Lords take into consideration the manner in which issues from the Vote of Credit should be recorded in the Appropriation Accounts now being prepared for presentation to Parliament.

The experience of the past twelve months has shown that certain modifications are required in the directions given by the Treasury Minute of 20 August 1914 as to the method of accounting for Vote of Credit issues.

I.—*Issues in connexion with Expenditure to be accounted for under Ordinary Votes.*—The principle of the Minute is that where an excess arises upon an ordinary Vote in respect of expenditure properly chargeable to that Vote, such excess may be met by an issue from the Vote of Credit to an amount not exceeding that part of the expenditure which arises out of services to which the Vote of Credit is applicable.

It is accordingly necessary that the Appropriation Account should exhibit:—

(*a*) That the whole of the expenditure charged to the Vote, whether in respect of the original Supply Grant or of the Vote of Credit issue, is properly chargeable thereto in terms of Part I. of the Estimate.

(*b*) That where a Vote of Credit issue has been made an amount of the total expenditure charged against the Vote not less than the amount of such issue can be definitely earmarked as arising out of the war, and as such properly chargeable against the Vote of Credit.

The classification of Vote of Credit expenditure separately under the different subheads of a Vote and the earmarking of specific payments as Vote of Credit payments (whether in fact they are ultimately to be met out of a Vote of Credit issue or not), as directed in the Minute of 20 August 1914, are thus not essential to the main object of the arrangement, and the rules laid down under these heads have in practice given rise to considerable difficulty in administration. An excess on a particular subhead, even though due to War Expenditure, does not give rise to a charge against the Vote of Credit if savings are available on other subheads, and so many payments are of a composite nature that any comprehensive earmarking of payable orders to Vote of Credit services is impracticable.

My Lords are satisfied that the waiver of these requirements will greatly facilitate and expedite the work of the Accounting Departments without impairing any material safeguard for the proper appropriation of the respective grants.

II.—*Issue in respect of Expenditure to be accounted for directly under the Vote of Credit.*—The Appropriation Account of expenditure to be accounted for under paragraph 12 (*b*) of the Minute should follow *mutatis mutandis* the form of an Appropriation Account of an ordinary Parliamentary Vote.

My Lords are accordingly pleased to direct that the following should be substituted for paragraphs 12 and 13 of their Minute of 20 August 1914:—

"12.—(*a*) As regards the form of accounts, little difficulty arises when services fall within the ambit of Part I. of the Parliamentary estimate. Except in cases where the authority of this Board has been obtained for the opening of new subheads, the expenditure should be brought to account under the existing subheads without distinguishing normal from extraordinary.

"Where the amount originally provided by Parliament has been supplemented by an issue from the Vote of Credit a record of the net issue will be made in the Appropriation Account of the Vote so supplemented; and it will be necessary, in order to demonstrate that this net issue has been justified, to append to the Account a note showing that the net effect on the Vote directly produced by the existence of a state of war is not less than the issue. The detailed notes shown against the several subheads in the 'Explanation of Causes of Variations between Expenditure and Grant' should also, where possible, distinguish between variations which are due to the war and those which are not.

"A schedule showing the net sums issued to other Votes will be appended to the Account of the Vote of Credit as prepared by the Treasury.

"(*b*) Where services are entirely outside the ambit of any Parliamentary Estimate other than the Vote of Credit, the Treasury will issue the necessary funds to the responsible officer or department by way of imprest. An account of the expenditure out of the imprest will be rendered to the Treasury for incorporation in the Appropriation Account of the Vote of Credit.

"13. Subject to these modifications the apportionment and accounting of the Vote of Credit will proceed in accordance with the principles recited in paragraphs 6 and 7 of this Minute and their Lordships need not revert to them in detail.

"But it must always be borne in mind that the charge against the Vote of Credit must not exceed the aggregate of the sums which the spending Departments can identify as directly occasioned by or for the event or object to meet which the Vote was taken."

Exchequer and Audit Departments Act.

78. The Exchequer and Audit Act was passed in 1866, and, at the request of your Committee, a Memorandum has been prepared on its history and subsequent developments. The painstaking research and accurate knowledge of the Comptroller and Auditor General and of his staff prepared a document of great interest, which is appended to this Report. It is not within the province of your Committee to make any recommendations founded on the Memorandum, but they think it well worth the consideration of the House whether, in quieter times, a special Committee should not be appointed to inquire whether improvements in the Act could be suggested in the light of past years.* The fifty years have shown marked and continuous progress

* Such a Committee was appointed by the Treasury on 25 October 1920, and their report, dated 28 June 1921, recommended modifications in the Acts of 1866 and 1889, and was presented to Parliament as Cmd. 1383. The Public Accounts Committee of 1921, at the request of the Treasury, considered this report and took evidence thereon which they agreed to report forthwith to the House (H.C. 171, 1921). Effect was given to the recommendations by the Exchequer and Audit Departments Act, 1921, 11 & 12 Geo. V, c. 52, which became law on 19 August 1921.

in the control of Parliament over the administration of the moneys provided for the services of the country, and the observations of the Public Accounts Committee have increasing weight with the Departments. But, while this is true, the House of Commons has had but rare opportunities of getting into touch with the work of the Public Accounts Committee, and your Committee suggest that at least one day in each Session should be set aside by Standing Order for the consideration of the Reports of the Committee.

REPORT, 1917. H.C. 123.

Treasury Minutes, 1 November, 1917, and 31 December, 1917.

GENERAL.

Estimates and Treasury Control under War Conditions.

1. During the year under review the accounting by the Departments and the work of the Comptroller and Auditor General have been carried out in face of abnormal difficulties caused by the war, and they have, on the whole, been satisfactorily overcome. Throughout the Appropriation Accounts of all the services, however, your Committee have met with instances of relaxation of Treasury control. In the Civil Services Accounts these were mostly for small amounts, and such as, no doubt, facilitated the work of the Departments.

In the case of the Admiralty, and at a later date of the Ministry of Munitions, Emergency Inter-departmental Committees were set up, whereby the Treasury was kept in close touch with the Departments, and was enabled to exercise such control as was possible without undue delay to the work.

In the case of the War Office, a similar arrangement was considered impracticable and waiver of Treasury sanction over Army expenditure was authorized to the extent set forth in Treasury Minute of 8 December, 1914 (H.C. 325, 1914-16).* Further, in the year 1915-16 and subsequent years the total expenditure on the Navy, the Army, and Ministry of Munitions has been met from the Vote of Credit, token Estimates only being presented to Parliament in respect of those services (see Treasury Minute of 5 February, 1915, Cd. 7790†).

Your Committee are of opinion that whatever may have been the necessity for this procedure in the earlier stages of the war, the time has now arrived when Estimates more approaching to those in force in normal times should be presented to Parliament, not merely for the fighting services, but also, where practicable, for the new services now charged direct to the Vote of Credit, *e.g.*, War Refugees, Central Control Board (Liquor Traffic), War Trade Department.

At present under the Vote of Credit, which is drawn in the widest terms, all moneys are placed at the disposal of the Treasury, which is guided in the distribution of them roughly by the estimates on which the Vote of Credit is framed, or in other cases according to such demands made by the various spending Departments as seem to them to be necessary or to be supported by the proper authority.

T.M. 1 November, 1917. They note the Committee's recommendation that the time has now arrived when Estimates more approaching to those in force in normal times should be presented to Parliament, not merely for the fighting services, but also, where practicable, for the

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* See p. 564.

† Reprinted at p. 11 of Navy Appropriation Account 1916-17, H.C. 39/1917.

new services now charged direct to the Vote of Credit, e.g., War Refugees, Central Control Board (Liquor Traffic), War Trade Department.

My Lords do not understand the Committee to propose that Votes of Credit should be entirely dispensed with, nor would it in their opinion be possible, while a war engaging the whole activities of the nation is in progress, to provide for every possible contingency by a series of separate Votes however comprehensive. New services are perpetually required under conditions of urgency such as to make the presentation of specific Estimates impracticable, while there remains a very large miscellaneous category of expenditure, particulars of which cannot in the national interest be made public and for which provision must necessarily be made in a globular sum.

If Votes of Credit were taken for these services only, it would become necessary to limit the application of such Votes by the terms of the Estimate to services for which provision has not yet been made by specific Estimate, since if the Vote of Credit is to be available to meet any deficiency which may arise upon the specific Votes the utility of the specific Votes as machinery for control of expenditure disappears.

The Votes of Credit as so limited would therefore cease to be available, not only for all Army and Navy expenditure, but also for charges incurred by ordinary Civil Departments in connexion with the war—which under the existing procedure are (in so far as the ordinary Vote is insufficient to meet them) defrayed out of the Vote of Credit.

In connexion with Army and Navy, the existing powers of virement between Votes possesed by the Treasury (subject to confirmation by the Appropriation Act) would obviate any serious practical difficulties, but, in view of the rapidity with which conditions vary in war time, these powers would necessarily have to be very largely exercised, and however carefully the original Estimates might be prepared, it is unlikely that the expenditure as ultimately recorded in the Appropriation Accounts would bear any close relation to the programme embodied in the Estimates and approved by Parliament.

In effect therefore the adoption of detailed estimates for the fighting services would merely be to set up separate Votes of Credit for Army and Navy in place of a single Vote of Credit for general War expenditure.

*In the case of Civil Departments (between the respective Votes for which the Treasury has no power of virement) it would become necessary to go to Parliament for a Supplementary Vote in the case of each Department on every occasion on which that Department might have to undertake work which had not been foreseen when the Estimate was framed or on which work for which provision had been made might have been expanded either in volume or cost beyond anticipations. If, for example, an increased War Bonus had to be given to Civil Servants in the course of a financial year, Supplementary Estimates would be required for every Department except such as might be able to meet the cost from savings on other items.**

Further it would be necessary, if confusion is to be avoided, not merely to take specific Votes for the new War Departments themselves but to include in the Votes for the old Departments the cost of war services (now charged to the Vote of Credit) which are being performed by these Departments. This would involve the recasting of the whole of the Estimates with the result that, not only would comparison with previous years be deranged, but normal charges and war charges would become inseparably mingled.

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* In this connexion see P.A.C. 3.1922.19 at p. 642.

Under the present arrangement the total of Votes of Credit represents, roughly it is true, but with sufficient approximation to accuracy for practical purposes, the cost of Army and Navy plus the abnormal expenditure of a general character arising out of the existence of a state of war. Under the alternative arrangement the expenditure could only be classified by a detailed analysis of every Vote.

For these reasons the provision of the whole or even of a considerable part of the War Expenditure by the machinery of separate and self-contained Supply Grants is not in their Lordships' opinion feasible.

It would no doubt be practicable to provide for Army, Navy, and Miscellaneous War Expenditure by three separate Votes of the character of Votes of Credit and to arrange a large part, though by no means the whole, of Army and Navy expenditure under the heads of separate Votes, presenting Estimates similar in general appearance to those presented in peace time. It is, however, open to question whether the division of the Vote of Credit into three sections would mean any substantial increase of control, while the powers of virement between different Army and Navy Votes (if the plan of separate estimates were adopted) would, as already explained, have to be so extensively exercised that the tentative analysis of expenditure as shown in the Estimates as presented would in all probability in the result have little relation to the expenditure when it came to be incurred.

Apart, however, from the practical difficulties of carrying out a comprehensive scheme of war supply on the basis of self-contained Estimates, my Lords are of opinion that the public interest requires that the Government should possess considerable freedom in allocating the provision made by Parliament for carrying on the war to whatever purposes may be most necessary and urgent from time to time, and that any system which required special application to Parliament for each individual service would be seriously detrimental to executive efficiency. Indeed it is to be observed that, while in the past procedure by Army and Navy estimates has been adopted in the case of circumscribed military and naval operations and local conflicts (e.g., the South African War), recourse has invariably been had to the expedient of a Vote of Credit in all wars in which the whole energies of the nation have been engaged.

Subject, however, to these observations my Lords agree that it is desirable

(1) *That all possible information should be given to Parliament concurrently with demands for War Supply, and*

(2) *That opportunities should be given for separate discussions of the more important services covered by the Vote of Credit.*

They therefore propose to present to the House of Commons, at the same time as the ordinary estimates for 1918–19 (or as soon after as may be practicable), a statement showing in detail (wherever reasons of public policy do not preclude their disclosure) the various services for which provision is proposed to be made out of Votes of Credit, and to supplement this statement from time to time with further statements of new services as they may arise or of the expansion of existing services as it takes place. These statements will, so far as possible, be in the form of ordinary Supply Estimates and they will include particulars of establishments borne on the Vote of Credit.*

They further propose to extend the practice of presenting "token" estimates introduced in respect of the Ministry of Munitions to all new departments presided over by responsible Ministers, whether established under statute or by administrative action.

* See Cd. 9031 presented in April, 1918.

In some cases, *e.g.*, the Liquor Control Board, a Treasury official has been appointed a member of the spending body, the reason given for this being that the Treasury member of the Committee is able to have a knowledge of plans while they are being formulated, and is often able to stop or moderate them on financial grounds. On the other hand, there is, no doubt, a temptation when a request for moneys comes from a Committee on which a Treasury official is sitting to regard the application as quasi-departmental and, therefore, the ultimate scrutiny of the demand may not be so strict as it would otherwise be. While your Committee admit the potency of the former argument during war time, they are of opinion that the practice throws upon the Treasury, with whom the ultimate decision rests, a new and very grave responsibility. They are aware that, during war time, in the long run the spending of money must be governed by war necessities, and that such Treasury control as is requisite and effectual in peace time is, to a great extent, not feasible. But it puts a greater responsibility upon all those through whom the nation's money passes to see that it is expended to the best advantage for the nation's needs, remembering that the ability of the taxpayer to bear the inevitable burdens is, to a great extent, the ability of the nation to win the war, and that money extravagantly spent on naval or military Services is, in itself, a weakening of the nation's power.

My Lords are not clear why the Committee consider that "the "practice throws upon the Treasury, with whom the ultimate decision "rests, a new and very grave responsibility." It is and has always been the case that the general responsibility for the proper expenditure of public money (as distinguished from the special responsibility of the individual Departments concerned) rests upon the Board of Treasury, after consultation to such extent as they may think fit with their permanent advisers; and this responsibility is of course exceptionally heavy at the present time. But it is in no way increased by the fact that their permanent advisers instead of dealing with a particular case by correspondence have familiarized themselves with it by attending the meetings of a Committee.

As regards the question as to which of these alternatives is in itself to be preferred, their Lordships would point out that for many years it has been the frequent practice for their officers to serve as members of deliberative committees whose recommendations involve expenditure, and that (e.g., in the case of the Pacific Cable Board) they have also served on executive bodies. What happens in practice is that the Treasury representative keeps in touch with his Ministers, reporting to them from time to time as important questions of principle arise and asking for their instructions on points of doubt. This procedure is laborious and consumes a considerable amount of time; but it enables the Treasury to acquire information to an extent which is hardly possible in written correspondence and my Lords regard it as a very effective form of financial control. They do not subscribe to the opinion that it causes applications to be regarded as "quasi-departmental."

Repayable Advances to Contractors charged to Votes.

2. Under pre-war conditions advances to contractors, apart from instalments payable under contract, are only admitted as charges against a Vote of Parliament in special cases under conditions which have received the approval of your Committee, namely that the advance has been really earned and that the work done and materials used are capable of identification, as having virtually become the property of the

Crown. Advances to contractors which do not come within these conditions, although otherwise justifiable, are not included in the Accounts of the Votes, but are charged to the personal account of the contractors. During the year under review advances were made to contractors by the War Office, Admiralty, and Ministry of Munitions amounting in the aggregate to upwards of £12,000,000, being for the erection of plant and buildings, and for assistance in financing commitments on raw materials and for other purposes of a like character. The Treasury hold the view that loans made under due authority are payments for which the Accounting Officer is entitled to obtain discharge in his account*, and consequently those advances have been included as final charges in the account, whether recoverable or not. As the terms of the Vote of Credit granted by Parliament cover its application to all purposes of the war, and the Treasury in their Minute of 29 January, 1915 (H.C. 325), have given specific authority for advances of this nature, the Comptroller and Auditor General has raised no objection to the course adopted, without prejudice to the proper procedure on reverting to normal peace conditions. Your Committee see no reason to disagree, though they are of opinion that the matter should be carefully considered at the close of the war.

Cost of Staff on Loan between Departments.

6. * * * * the attention of your Committee was drawn to the fact that considerable numbers of the normal staff of the Board of Education, National Health Insurance Committee, &c., had been lent to other Departments, either those created through the war, or those whose work had been largely increased in connexion with the war.

Following the provision in the Estimates, the salaries of the staff so lent continue to be charged against the ordinary Votes on which they are borne. The Treasury have now arranged that for 1916–17 and for subsequent years a note shall be appended to the Accounts concerned stating the amount of the salaries of the officers so lent.

The Treasury Circulars of 12 *May and June* 1917, *with regard to the salaries of officers on loan, are annexed herewith.*

Treasury Circular (15832/17.) of 12 May 1917, as modified by that of June 1917.

I am directed by the Lords Commissioners of His Majesty's Treasury to inform you that, in the course of consideration by the Public Accounts Committee of the Appropriation Accounts 1915–16, *questions have arisen as to the extent to which Civil Servants, whose salaries are borne upon the Vote of one Department, are in the present emergency actually employed in other Departments, or serving with His Majesty's Forces.*

With a view to furnishing in future the desired information in a convenient manner, I am to request that you will cause to be appended to your Appropriation Account for the year 1916–17 *and for subsequent years notes in the following form:—*

" This account includes sums of approximately £ in " respect of salaries, &c., of staff temporarily lent to other Departments, and £ in respect of staff serving with his Majesty's Forces.

" The accounts of other Departments include the sum of approximately £ in respect of salaries, &c., of staff temporarily lent to this Department."

* This view and the accounting procedure to be followed are discussed at greater length at pp. 63-5 of Army Appropriation Account 1916-17, H.C. 34/1917.

My Lords fully recognize the pressure under which the accounting staffs of Departments are now working; and, with a view to reducing to a minimum clerical and accounting labour, amounts of less than £25 in respect of any individual officer may be disregarded. Further, the notes may be omitted altogether where the total *sum involved is less than £100 and no attempt should be made to assess the value of part time assistance.*

My Lords take this opportunity of reminding Departments that, in the absence of special circumstances, no actual cash adjustment should be made between Votes in respect of officers on loan. In case of doubt reference should be made to their Lordships' Officers of Accounts.

CLASS III., VOTE 15.—LAW CHARGES AND CRIMINAL PROSECUTIONS, IRELAND.

Adjustment of Disallowance.

13. In their First Report last year* the Public Accounts Committee dealt with the payments to certain Crown witnesses, amounting to £550 7s. 8d. and disallowed any amounts beyond those authorized by the Treasury. They are informed that the Treasury have since given covering sanction to items amounting to £207 0s. 11d., and as the Lord-Lieutenant agrees that it is not practicable to recover any portion of the balance, a Supplementary Estimate has been presented to Parliament to provide for the balance of £343 6s. 9d., a course in which your Committee concur.

CLASS VII., VOTES 2, 3, and 8.—NATIONAL HEALTH INSURANCE JOINT COMMITTEE, INSURANCE COMMISSION, ENGLAND, AND NATIONAL INSURANCE AUDIT DEPARTMENT.

Power of Surcharge.

14. With reference to the matters dealt with by the Committee of Public Accounts† in paragraphs 11–21 of their First Report, 1916, your Committee are glad to learn from the memorandum of the National Insurance Joint Committee of 22 March, 1917 (Appendix No. 6), that the Insurance Commissioners are taking steps to comply with the recommendation that legislative sanction should be obtained to confer on Insurance Committees the same power to surcharge individual members who are parties to irregular transactions as has been obtained in the case of local authorities.

REVENUE DEPARTMENTS.

CLASS II., VOTE 2.—INLAND REVENUE.

Fees to Law Officers.

16. The attention of your Committee was drawn to a case in which the Board of Inland Revenue had paid to the Attorney-General (then Solicitor-General) a refresher fee at a higher rate than the maximum prescribed by the Treasury Minute of 5 July, 1895. The existence of the Minute appears to have been unknown to the Accounting Officer of the Department, although it was within the knowledge of the Solicitor to the Board of Inland Revenue, and it is evident that the sanction of the Treasury should have been sought in the first place before the fee was paid. Your Committee regret that this was not done. The Treasury, not having been consulted at first, withheld their

* See paras. 8-10, p. 557. † See p. 558.

sanction, which would have entailed a repayment of £63, the sum in excess of the maximum allowed by the Treasury Minute; but your Committee are of opinion that, in the circumstances explained by the Attorney-General, sanction may now be given, and that no question of repayment should arise. They note with regret the ignorance of the Board of Inland Revenue of the terms of the Treasury Minute.

My Lords note the opinion of the Committee that, in the circumstances explained by the Attorney-General, covering sanction may now be given for the payment to him, when Solicitor-General, of refresher fees exceeding by £63 in all the maximum prescribed by the Treasury Minute of 5 July 1895, and that no question of repayment should arise; and they give their sanction accordingly.

They desire, however, to place on record their view that, having regard to the terms of Clause 8 of that Minute, which embodies the conditions on which the Law Officers must be presumed to accept office, it is desirable that, when Law Officers receive special remuneration, it should be paid in the form of increased brief fees and not of increased refreshers.

They also feel unable to concur in the view expressed by the Attorney-General that neither he nor the Solicitor-General should be expected in any circumstances to accept a lower fee than a junior. Clause 8 of the Treasury Minute prescribes that "for contentious "business, as above described, the Law Officers and their clerks shall "receive fees according to the ordinary professional scales, meaning "thereby the scale of fees which a Queen's Counsel of average *standing "in the profession might properly accept from a private client . . ." and, further, it does not seem to them possible in this connexion to leave out of account the large fixed salaries paid to the Law Officers.*

Finally, with reference to the Attorney-General's statement (Q. 1275) *that there had been* 30 *cases a year in which the Treasury Minute had been altered, they desire to say that during the five years* 1912 *to* 1916 *inclusive only* 11 *cases arose in which the question of increasing either the brief fees or the refreshers of English Law Officers were submitted to the Chancellor of Exchequer, inclusive of the present case and of one other in which the increase was refused.*

VOTE 3.—POST OFFICE.

Losses due to Fraud.

18. The Post Office refunded to a Limited Liability Company the sum of £130 15s. 9d., the value of certain cheques their Secretary had improperly converted to his own use through the Post Office Savings Bank. As the Post Office refused to take criminal proceedings, the Treasury withheld their sanction to the payment being charged against the Vote. It appears that the cheques in question were paid in at different Sub-Offices in the City, and were of a character forbidden by the rules of the Post Office to be received. In every case they escaped detection, not only by the counter clerks in the first instance, but by higher officials through whose hands they passed, but it is evident that the Post Office rules are quite explicit upon the point, and that they were disregarded. The Treasury pressed that the delinquents should be prosecuted, but the Post Office declined to do this, on the ground partly that the Department itself had been guilty of negligence and partly on account of the delay in the settlement of the repayment to the company.

Your Committee do not regard this explanation as altogether valid. And they must again endorse what they said last year in reference to another Department, that in such cases prosecution should be undertaken

unless a Department is legally advised that there is insufficient evidence to secure a conviction. Nor do they consider that proper disciplinary action was taken in regard to the clerks at fault.

NAVY ACCOUNTS.

Documents required for Audit, not forthcoming.

21. The Comptroller and Auditor General has drawn attention to the fact that his work has been considerably hampered by the difficulty in obtaining Admiralty papers relating to expenditure.

Your Committee are glad to learn that an improvement has in certain respects been recently effected and while appreciating the difficulties of the Admiralty they must express a hope that all possible steps will be taken to supply the necessary documents to enable the Comptroller and Auditor General to discharge his duties satisfactorily.

T.M. 31 December, 1917. My Lords share the hope expressed by the Committee that the documents necessary to enable the Comptroller and Auditor General to audit Navy Accounts will in future be supplied to him with the least possible delay.

VOTE 8, SECTIONS II AND III.—SHIPBUILDING, &C. MATERIEL AND CONTRACT WORK.

Cost Plus Percentage Contracts.

24. Since the Report of the Public Accounts Committee last year, the Admiralty Departmental Committee on Establishment Charges have reported that the system of fixed percentages for these charges is open to objection and that, in some cases, the percentages actually fixed were unreasonably favourable to the contractors. They observe that a system which allows a contractor a profit upon every increase in the cost of the work presses very injuriously on the Admiralty and, in cases where it is possible to arrive at a probable estimate of the cost before the work is commenced, they suggest (*a*) an arrangement by which the contractor's profit is limited as the cost of the work increases or increased as such cost diminishes; or (*b*) an arrangement by which a contractor's profit is fixed beforehand at a definite sum. The Treasury, in their Minute of 29 December 1916 on the Report of Public Accounts Committee for that year, suggest the adoption of the latter alternative, and your Committee are glad to learn that the Admiralty is now adopting a form of contract which follows either one or the other suggestion, or, in certain cases, combines them both.

My Lords share the satisfaction expressed by the Committee that a form of contract is being adopted by the Admiralty, limiting or fixing at a definite sum the profit of contractors.

Responsibility of Accounting Officer.

25. Orders were given at the outbreak of war for the acceleration of certain ships then under construction on fixed price contracts, and difficulty was found in dealing with the claims of contractors in respect of the extra cost incurred. Attempts were made by the Accountant-General's staff to check the accuracy of certain items by examination of the contractors' books, but the results being unsatisfactory the Admiralty decided that for the remainder of the war, the undivided responsibility for the correctness of charges against the public in these matters should rest upon the professional officers. This procedure seemed to infringe the doctrine of the responsibility of Accounting

Officers for the expenditure out of the Votes for which they account, and the Comptroller and Auditor General drew the attention of the Admiralty to the matter. Subsequently, with the sanction of the Treasury, an Admiralty Committee, including a non-official Member of Parliament of great experience in this class of negotiation in private trade, was set up to settle all such claims. The Admiralty, while accepting the undivided responsibility of Accounting Officers, urge that the class of claims is one that must be dealt with by way of bargain and agreement, and in a letter of 16 April 1917 to the Admiralty, the Treasury say: "My Lords take this opportunity of "pointing out that the constitution of the Acceleration of Claims "Committee, was intended by them not to absolve the Accounting "Officer from his responsibility, but to assist him by providing him "with more adequate machinery for considering claims than appeared "to be in existence prior to its being constituted, in view of the "complexity of the accounts, the impracticability of detailed examina- "tion of many of the items, and the possibility of saving public "funds by direct negotiaton with the contractors."

Your Committee, having regard to all the circumstances, are of opinion that the machinery ultimately adopted for the settlement of these claims appears to be satisfactory.

Dockyard Expense and Greenock Torpedo Factory Accounts.

Accounts withheld from Publication.

29. Notwithstanding the provisions of the Army and Navy Audit Act of 1889, the Treasury have concurred in the suggestion of the Admiralty that, during the period of the war, the Dockyard Expense and Greenock Torpedo Factory Accounts need not be presented to Parliament, the question of eventual publication being reserved for further consideration.

Your Committee in the special circumstances raise no objection to the arrangement, though they are of opinion that the matter should have been referred to them before a decision was reached

Army Accounts.

Use of Cost Accounts by the War Office.

32. Arising out of the observations of the Public Accounts Committee in their Second Report of 1916,* and of certain statements that were made in the House of Commons debate thereon on 24 October 1916, your Committee have been furnished with a memorandum (Appendix 9) on the use of cost accounts by the War Office. This statement shows that, although no system of examining contractors' books, in order to arrive at the cost of their manufactures, was in force before the war, the War Office had for many years past annually presented to Parliament elaborate accounts detailing the articles made in the Government Factories and their cost.

These accounts, which have in recent years been remodelled, are now generally admitted, both by outside accountants who have been called in to give advice on the subject, and by the Comptroller and Auditor General who audits them under the Army and Navy Audit Act of 1889, to represent fairly the true cost to Government of the articles manufactured. It is claimed, therefore, by the War Office that though these accounts deal only with actual expenditure incurred and do not embrace such elements as profit, interest on capital, or rent of Government lands, and the results are therefore not exactly comparable with contractors' prices, still they do afford a standard of cost

* See paras. 12-14 and 25-8 at pp. 562 and 567.

for warlike stores and that by these means considerable economies have been effected in reducing contractors' prices in cases where effective tendering was impossible.

Your Committee think it only right to place these facts on record, as considerable misapprehension appears to exist on the subject, in order to correct the erroneous impression that the War Office had no means of judging the reasonableness or otherwise of the contractors' prices, other than by a knowledge of the previous tenders. Your Committee feel bound to add that a considerable advance has been made in this matter, by the powers now conferred on the War Office, Admiralty, Ministry of Munitions, and Food Controller, of examining contractors' books and fixing prices on actual cost of production, plus a percentage for reasonable profit, and they trust that these powers will be retained on return to normal conditions.

The Council will note the view of the Committee that the powers now conferred on Departments of examining contractors' books, and fixing prices on actual cost of production plus percentage for reasonable profit, should be retained on returning to normal conditions.

Cost Plus Percentage Contracts.

53. Much of the construction of [these] factories was carried out on the basis of net cost and percentage. Your Committee made particular inquiries as to the supervision of the Ministry, both as regards the numbers of men employed, the rate of wages, and the scale of overhead charges, and while in the earlier stages the results are open to criticism, it is stated that, as far as possible, careful and effective watch is now kept on all these points.

Your Committee were informed that, in view of the increases of pay granted from time to time to meet the exceptional conditions, a proposal is under consideration that such increases of pay should not carry any percentage, and your Committee are of opinion that some such arrangement should be effected.

Your Committee recommend that where it is necessary to employ contractors who are remunerated on the basis of net cost and percentage, such remuneration should be based on a sliding scale.

[*The Minister*] *will note the recommendation of the Committee that the remuneration of contractors on the basis of net cost and percentage should be based on a sliding scale.*

Revision of Prices by Means of Costings.

54. The Second Report of the Committee on Public Accounts last year referred to the development by the Ministry of a system of ascertaining the exact costings for articles required. During the year under review the inquiry was energetically pursued, the system widely developed, and its adoption made a condition of contracts with the Department, the result being most striking in two directions: first, in reducing the scale of prices, and secondly in bringing home to manufacturers the importance of minute investigation into their records to ascertain the true cost of production. This is likely to have a large and far-reaching effect in the future. Further, it is stated that the new system, which was in many cases at the start objected to, is now being warmly welcomed, as manufacturers find that it makes for economy by giving them a much closer grip over their transactions.

My Lords note with interest the observation of the Committee that the system is stated to be now welcomed by manufacturers as giving them a closer control over their transactions.

REPORT, 1918. H.C. 100.

Treasury Minutes 11 *September* 1918, 5 *October* 1918 *and* 1 *December* 1918.

Civil Services Accounts.

Effect of Vote of Credit on Civil Services Estimates.

3. The procedure of former years has been continued and has necessitated issues from the Vote of Credit in the case of 37 votes, and the Comptroller and Auditor General reports that he is satisfied that the sums so allocated represent expenditure on services falling within the terms of the Vote of Credit. As war expenditure is met from the ordinary Vote to the extent that savings are available and only the excess over the normal provision is issued from the Vote of Credit, your Committee wish again to point out that the issues from the Vote of Credit do not represent the total expenditure incurred by Civil Departments upon the war.

4. In accordance with instructions of the Treasury, Civil Services Estimates are prepared on a pre-war basis, no changes due to the war being included. As a result the estimates in many cases make no pretence to represent the real expenditure of the year. Your Committee are of opinion that the Estimates should present as accurate a forecast as possible of the expenditure of the coming year, and that all foreseen items should be included. At the same time an estimate of the expenditure due to the war might be made, and deducted from the total estimate so as to show on the face of the Vote the estimated expenditure of the year on a peace footing.

T.M., 1 *December* 1918.—*My Lords have noted the views expressed by the Committee with regard to the form of the Civil Services Estimates, and are considering the arrangements to be made in view of the altered situation arising out of the signing of an armistice.*

Class II, Vote 12.—Charity Commission.

Allowance for Personal Services granted to an Absentee.

7. The Comptroller and Auditor General reported that an officer absent on military service had been nominated as private secretary to one of the Charity Commissioners and had had assigned to him from 1 March 1917 the £100 per annum usually granted, although he had not taken up his duty. On the matter being referred to the Treasury, covering sanction was given for the action taken, a course which your Committee regret. As, however, the officer in question received the money bona fide, your Committee will not disallow the amount, but they regret that payment of public money should have been made for services that could not be rendered; a practice that, if it prevails elswhere, should cease.

Woods, Forests, and Land Revenues.

Proceeds of Timber sold.

9. The Public Accounts Committee of 1917 inquired into the practice of the Office of Woods with regard to the allocation of the value of the annual fall of timber, and a suggestion was made that the Office should be treated under the law applying to settled estates, that is to say, that three-quarters of the net profits of the sale must be carried to capital. Your Committee understand that the principle is already adopted with

regard to mines under the Office of Woods (where one-half the proceeds is carried to capital), and approve the suggestion that it be applied to sales of timber.

To the Commissioners of Woods.

I am directed by the Lords Commissioners of His Majesty's Treasury to transmit to you herewith a copy of paragraph 9 of the Report of the Public Accounts Committee, 1918, relative to the question whether part of the proceeds of the sale of timber should be carried to capital account and to request that they may be favoured with your observations on the recommendations contained therein.

I am to draw attention to the fact that divergent views were expressed on the subject by the two officers of your Department who appeared at the Committee on behalf of the Accounting Officer.

Note.—The Commissioners of Woods were unable to agree that there was sufficient reason for asking Parliament to sanction the capitalization of three-fourths or any other proportion of the proceeds of sales of timber, and were strongly of opinion that they should simply be brought into current account. The question was not pursued further. *See* Q. 551 sqq., Evidence before P.A.C. 1919.

REVENUE DEPARTMENTS.

VOTE 2.—INLAND REVENUE.

Audit of Excess Profits Duty.

10. The Comptroller and Auditor General reported that in certain cases connected with Excess Profits Duty he has been unable to procure all the documents necessary for his audit. It appears that in some cases liability to the duty is determined by the Surveyor after inspection of the taxpayers' books, and consequently there are no documents available for production to the Comptroller and Auditor General. In reply to a suggestion that in future the necessary documents might be forthcoming, the Board of Inland Revenue pointed out that in the exercise of their statutory discretion they were at liberty to call for documents or to adopt other measures necessary for the purpose of making an assessment. In some other cases the local Commissioners of Income Tax declined to permit the production to the Comptroller and Auditor General of accounts which, though rendered to them by private individuals for Income Tax purposes, were also necessary to him for the audit of Excess Profits Duty. Your Committee appreciate the difficulty of requiring the books of private firms to be submitted to the Comptroller and Auditor General, and also appreciate the effect of this on the conduct of his audit. They suggest that a conference on the question be held between the two Departments and the Treasury, with the view of meeting the requirements of the Comptroller and Auditor General.

In accordance with the suggestion of the Committee, a conference has been held between the Board of Inland Revenue, the Exchequer and Audit Department, and the Treasury, with a view to meeting the requirements of the Comptroller and Auditor General in carrying out the audit of Excess Profits Duty.

One class of case in which certain local Commissioners of Income Tax had declined to produce, for audit, accounts in their possession had already been satisfactorily disposed of, as, in response to further representations by the Board of Inland Revenue, the outstanding accounts had been furnished, and no further difficulty was anticipated in this connexion.

The other class of case was that in which liability to Excess Profits Duty was determined by the Surveyor of Taxes from an inspection of the taxpayers' books, with the result that no accounts were available for production to the Comptroller and Auditor General by which he might satisfy himself as to the correctness of the assessment. It appears that the number of important cases in which accounts are not rendered is very small, probably about 1 per cent. of the total, and in these circumstances the Comptroller and Auditor General has agreed to accept a Report from the Surveyor or other information in support of the assessment made, which the Board of Inland Revenue has undertaken to furnish.

NAVY APPROPRIATION ACCOUNT.

New Form of Cost plus Percentage Contract.

17. The Admiralty adopted a new form of contract for Shipbuilding on the basis of net cost plus establishment charges (either on an agreed percentage or as ascertained by the Admiralty), together with a profit of 10 per cent. upon the estimated cost, and a bonus of 10 to 20 per cent. of the amount by which the actual cost proved less than the agreed estimated cost, which seemed to your Committee to be in principle a suitable form in the absence of competition. This form your Committee learn has lately been amended and brought into line with the Marine Shipping Contract. Your Committee understand that the principal changes in the new form of contract are that, in view of the high cost of labour, fixed amounts not necessarily bearing any relation to the actual or estimated cost are now included for establishment charges and profits. Your Committee will watch the outcome of the new system with interest, as its more economical working will depend upon the successful negotiation upon the part of the Admiralty of the amounts fixed for establishment charges and profit.

T.M. 5 October 1918.—My Lords are confident that their Lordships of the Admiralty will keep a careful watch on the working of the new forms of contract, in order to secure that the amounts allowed for the establishment charges and the profits of contractors are negotiated on the lowest practicable basis.

ARMY APPROPRIATION ACCOUNT.

FINANCIAL CONTROL IN EXPEDITIONARY FORCES.

61. A misunderstanding arose upon the construction of a paragraph in the Field Service Regulations, which was held to give the General Officers Commanding in the Field the power to ignore or overrule any representations made by the representatives of the Accounting Officer of the War Office. Your Committee are glad to be informed that the contention of the local Military Authorities in question has now been withdrawn.

INLAND WATER TRANSPORT WORKS.

Substitution of Cabinet for Treasury Sanction deprecated.

67. In the early part of 1916, Treasury sanction was given for schemes initiated by the Inland Water Transport Department at an estimated cost of £109,000. Development of such facilities was a matter of great importance and urgency, and the schemes were greatly extended and rapidly put in hand without the cognizance of the Finance Branch of the War Office or of the Treasury. It was some months before the former appreciated the situation, but in August 1917 a revised estimate of £931,000, purporting to cover all the

schemes in hand, was submitted to the Treasury, and approved by them, with a protest as to the difficulty in which such action placed them in discharging their responsibilities to Parliament. In addition to this amount, outstanding liabilities of £130,000 which had been omitted came to light. Further commitments and increase of estimates involved an additional £350,000, and these figures do not include the cost of military labour employed, which, at the rate of eightpence per hour per man, appears to be upwards of £500,000. Owing to the urgency of the work, Cabinet sanction was obtained for various increases of estimates, and your Committee regret that this was thought to render the Departmental sanction of the Treasury unnecessary. Moreover, the fact that military labour was employed, and large portions of the material taken out of store, points to serious omissions in the scheme of financial control in the War Office. Your Committee are glad to understand that measures are being taken to avoid such a serious gap in the system of financial control in the War Office.

My Lords trust that the measures taken to secure proper financial control over this branch of expenditure are proving successful, and they would be glad to receive a statement on the subject.

Ministry of Pensions.

Discretionary Interpretation of Royal Warrants.

77. The Royal Warrant provides that a pension shall be granted to a soldier discharged as medically unfit for further service, such unfitness being certified as either attributable to or aggravated by military service in consequence of the present war and not being due to the serious negligence or misconduct of the discharged man.

The Accounting Officer of the Ministry and the Comptroller and Auditor General have drawn attention to what they regard as an increasing tendency on the part of the Ministry of Pensions to interpret the terms of the Royal Warrant in a strained and unnatural sense to an extent which involves improper expenditure of public money.

In response to a request by your Committee typical cases were put before them, in some of which the Minister had overruled the protest of the Accounting Officer to the effect that the awards were irregular and required Treasury sanction.

In certain cases also the Comptroller and Auditor General, endorsing the opinion of the Accounting Officer, referred the awards to the Treasury, who regarded them as not covered by the terms of the Warrant.

Your Committee also took evidence from the Parliamentary Secretary to the Ministry who explained the policy of the Minister, and claimed that he must have a very wide discretion as interpreter of the Warrant.

Your Committee have carefully considered the facts submitted to them. They are clearly of opinion that some of the awards were *ultra vires*. They trust, however, that the modifications in the terms of the general instructions, which have been agreed to by the Treasury, will tend to regularize the procedure for the future.

As regards the powers of the Minister of Pensions in relation to the interpretation of the Warrant, they must emphatically assert that his powers in no way differ from those of the Army Council in the interpretation of the Royal Warrant for Pay, etc. They endorse the opinion of the Committees of Public Accounts in 1884, 1889, and 1898, that so far as practicable any action taken under a Royal Warrant should be in accordance with the simple and ordinary meaning of its language. Wherever a discretionary interpretation becomes necessary, that interpretation should not be opposed to but in harmony with the natural

meaning, intention, and purpose of the Warrant; and if in special cases it appears to be necessary to deviate from the plain meaning of a Warrant the concurrence of the Treasury should be obtained.

Your Committee regard it as of the utmost importance in the interest of the tax payer that the very heavy expenditure on war pensions should be administered under all proper and necessary safeguards.

T.M. 11 *September* 1918.—*My Lords note that the Committee strongly endorse the opinion of previous Public Accounts Committees that, so far as practicable, any action taken under a Royal Warrant should be in accordance with the simple and ordinary meaning of its language, and that, if in special cases it appears to be necessary to deviate from the plain meaning of a Warrant, the concurrence of the Treasury should be obtained. In their Lordships' opinion the observance of this principle is essential to secure financial regularity and the expenditure of public moneys for the purposes for which they have been voted by Parliament, and they will be glad to learn that it is accepted by the Minister.**

In their letter of 26 *June last* (24450/18) *my Lords have already stated their view of the position of the Accounting Officer in this connexion, and they trust that in future the Minister will not take the extreme step of overruling a written protest made by his Accounting Officer without previous reference to them.*

The Committee express the opinion that some of the awards made by the Ministry were ultra vires, *but they trust that the modifications in the terms of the general instructions which have been agreed will tend to regularize the procedure for the future. My Lords share this hope, the fulfilment of which obviously depends upon strict adherence to the proper meaning of the provisions of the Royal Warrants. The rights of the taxpayer must be protected no less than those of the discharged sailor or soldier, and they could have wished that attention had been called to this aspect of the matter in the Memorandum on the general policy of the Ministry as regards disability arising from disease which they understand from your letter of the 7th ultimo* (9433) *has been communicated to the Pensions Appeal Tribunal for their guidance.* . . . . . .

As regards erroneous awards already made, their Lordships have agreed . . . . . *that an award incorrectly made in consequence of the wording of the Minister's original instruction which has now been modified may remain upon the Vote for the period during which it stands, a note in general terms being added to the Appropriation Account that the Account includes certain payments under erroneous awards, but that it has not been possible to determine the difference between actual payments and the gratuities which might properly have been awarded.*

In your letters of 20 *June and* 10 *July last, however, the Minister demurs to the carrying out of the pledge previously given by him, on the faith of which their Lordships' letter of* 25 *May last was written, viz., that conditional pension cases coming up for reassessment shall be reviewed strictly on the revised standard. In view of the distinct opinion of the Public Accounts Committee that awards made were* ultra vires, *my Lords feel bound to adhere to their views that the continuance, as a permanent charge on the taxpayer, of conditional pensions so awarded cannot be defended. The Minister holds that to cancel pensions already granted on a difference of medical opinion is a course which would be likely to bring lasting discredit on the Government. Their*

* See P.A.C. 2. 1919. 42 at p. 597.

Lordships would accept this view so far as the difference could not be resolved by medical experts, and so far as there was a reasonable balance between the conflicting opinions. But they cannot accept the position that a non-expert medical opinion in favour of a man cannot be set aside when regarded by expert medical opinion as erroneous, or that doubtful decisions should not be reviewed by such experts, during the conditional period of a pension. Moreover it appears to their Lordships that in many of the doubtful cases the matter is not one of difference of medical opinion. The awards in question were the direct or indirect result of directions given to medical officers and others which were not in accordance with the terms of the Royal Warrant, and the Ministry is in no way committed to their continuance beyond the period for which they have been awarded. Their Lordships note, moreover, that in a number of cases quoted in appendix C to the Memorandum handed in by the Accounting Officer to the Public Accounts Committee (Appendix No. 16) improper awards have already been either cancelled or amended, and they do not share the apprehension that it will be impossible to defend such action in other similar cases.

SECOND REPORT, 1919. H.C. 145.

Treasury Minutes, 27 November 1919 and 26 February 1920.

CIVIL SERVICES.

OFFICE OF WORKS.

System of Inspection and Supervision.

5 Under the system at present in force the Office of Works is responsible for the supply of fuel, light, water, furniture, and household articles to many Departments, some of which not only have central offices in London but branch offices in the country. We understand that the Office of Works employs inspectors to visit the central Departments so as to secure that due economy is observed in the consumption of fuel and in other respects, but that with regard to the provinces they rely mainly on the effect of circulars of instructions. We think it probable that the activities of the State will remain in an expanded condition after the war, and may even expand further in certain directions, not only in London but elsewhere. We think it would be wise, therefore, for the Office of Works to formulate a scheme of supervision which would cover at any rate the greater part of the Kingdom. This supervision might well cover not only the use of fuel, water, and light, but the keeping of proper inventories of furniture and the checking of the furniture against the inventories, the economical use of furniture and other supplies, and the disposal of that surplus to requirements, and the utilization of labour-saving appliances and methods.

NOTE.—The Committee of 1920 did not press the recommendation, on the understanding that it would be kept in mind and taken up again later if it should seem desirable or necessary. See Q. 9-11, Evidence before P.A.C., 1920.

CLASS III. VOTES 8, 14, AND 21.—PRISONS.

Comparisons of Cost.

8. Your Committee have not been able, owing to the different forms in which the accounts are presented, to make any useful comparisons between the cost of maintaining prisoners in England and

Wales, Scotland, and Ireland respectively, but the Treasury representative has handed in a memorandum (Appendix No. 17) in which, after making various adjustments, a comparative statement of cost is furnished, and in which it is admitted that the classification in the Votes could be made more uniform.

The question of reshaping the form of Estimates and Accounts is at present being considered by a Committee under Sir Albert Wyon,* and we think this a clear case where useful results would be obtained by adopting the unitary cost method of accounting recommended by the National Expenditure Committee in their Seventh Report,† comprehending all the charges incurred on account of the Prisons Services, and showing *inter alia* the cost per prisoner maintained.

CLASS VII., VOTE 8.—NATIONAL INSURANCE AUDIT DEPARTMENT.

Annual Report of Chief Auditor.

12. It has been considered desirable to lay down more definitely in one or two matters the procedure in connexion with the annual report of the Chief Auditor of the National Insurance Audit Department. It has been arranged that the chief Auditor will notify to the Comptroller and Auditor General any cases of repeated defects which are of sufficient importance and on which suitable action has not been taken.

The Chief Auditor's report will be addressed to the Treasury as the Department responsible for the appointment of that officer, and in so far as matters are raised affecting the direct interests of the Exchequer the Treasury will make it their business to pursue them.

Your Committee regard these arrangements as quite satisfactory.

REVENUE DEPARTMENTS.

VOTE 2.—INLAND REVENUE DEPARTMENT.

Responsibility of Accounting Officer.

14. It was reported to us that the check of the Accounting Officer over the accounts for Scotland was practically dispensed with as the whole of the work was done in the office of the Comptroller in Edinburgh. We were informed, however, that a rearrangement was being considered as the Board of Inland Revenue contemplate setting up a separate Accounts Branch for Scotland. We trust that in any new arrangement which may be made the principle of the responsibility of a single Accounting Officer, to which we attach much importance, will be strictly observed.

T.M. 27 November 1919.—*My Lords are glad to observe that the Committee place on record the fact that they attach much importance to the principle of the responsibility of a single Accounting Officer, and they request that they may be informed what action is being taken in the matter.*

UNCLASSIFIED VOTES.

UNCLASSIFIED VOTES.—MINISTRY OF FOOD.

Accounting which conceals Cost of Subsidy deprecated

15. During the year under review the Government in order to encourage the production of potatoes guaranteed a certain price per ton. The market price proved to be less than the guaranteed price, and the

* The report of this Committee was not published. † H.C. 98, presented on 31 July 1918.

total subsidy which had to be paid to growers in order to make good the difference was £1,193,000. This would have been greater by " round about £200,000 " if the Treasury had not agreed to a request from the Ministy of Food to direct Departments which were purchasers of potatoes to pay the guaranteed and not the market price. We recognize that certain transactions in settlement of claims were thus avoided, but the course adopted produces the result that the real amount of the potato prices guarantee is nowhere fully or correctly shown, being concealed to a considerable extent in the accounts of consuming departments. Your Committee are of opinion that in the interest of accurate accounting the total cost of the subsidy should have been shown in the account providing for it.

My Lords take note of the opinion expressed by the Committee with regard to the accounting arrangements adopted in connexion with the Potato Subsidy.

The course adopted appeared at the time to be the most convenient and economical, but my Lords are disposed, as a matter of principle, to concur in the view expressed by the Committee, and it will be borne in mind in any future cases that may arise.

General.

Unexpended Balances of certain Funds.

Disclosure in Estimates desirable.

17. Several instances have come to our notice in which grants made by Parliament for certain purposes outside the ordinary annual estimates of departments have remained unexpended. In some cases the funds established have been growing to the extent of the interest which has accrued from the investment of the funds. In other cases the funds have increased by further annual grants, while the earlier annual grants remained largely undrawn upon. We have no doubt that most of these cases are due to the suspension of operations owing to the war. But we consider that it would be useful for the Treasury to have the power of directing that the existing position of any fund on account should be set out in the Estimates so that Parliament might have an opportunity of considering whether the money was any longer needed for the purpose for which it was voted, or whether the fund should continue to be increased by annual grants, or whether the interest upon it should not be taken for the service of the taxpayer rather than be allowed to accumulate for the benefit of the fund.

My Lords note the suggestion of the Committee. The Treasury, which is responsible for the form in which estimates are presented to Parliament, has already the power to direct that the estimate should include a statement of the position of any fund connected with the particular Department concerned.

My Lords will consider in what cases such information (which would necessarily only refer to the position of the fund at the end of the financial year preceding that for which the estimate was being taken), can usefully be given in the Estimates. It is already given in most cases in the Appropriation Accounts.

Navy Appropriation Account.

Vouchers, Papers, etc., not Forthcoming.

20. Vouchers were outstanding at the date at which the Account was rendered, amounting to £926,000 for the year 1917-18, £142,000 for 1916–17, and £68,000 for 1915–16. We were informed that the

difficulty experienced in furnishing these vouchers was due to pressure of work, lack of experienced staff, the scattered nature of the accommodation occupied by the Accountant General's staff, and the constant removal of Departments. We were assured that more satisfactory results are expected to accrue in the next few months, but we regard the position as one indication among several of the lack of appreciation of the importance of accounting, which appears to prevail at the Admiralty, and of the weakness of the system of control by the Accountant General.

See Treasury Minute following paragraph 22.

DELAY IN SETTLING CONTRACTORS' CLAIMS.

21. We have had before us a case with regard to ships ordered early in 1915, and completed in that year, in which, in addition to the contract price, £43,000 was paid to the contracting firm for bonuses to the men for good time-keeping. The system was apparently not found satisfactory, for it was not applied in other cases. But the Comptroller and Auditor General has had difficulties with regard to his duties of audit in this case, which your Committee share in reporting upon it, owing to the fact that although the work was completed in 1915 the contractor's claims were not finally settled until 1917. One example of the unsatisfactory result of this delay is that the matter was still unsettled at the time of our investigation, for the Treasury did not know of the special arrangement made until it was reported to them by the Comptroller and Auditor General in March, 1919, and correspondence was proceeding between the Treasury and the Admiralty on the subject.

T.M. 26 February 1920. *My Lords have been informed by the Lords Commissioners of the Admiralty that the payments made to the contractors in this case in respect of bonuses to workmen for good time-keeping represented a method of securing acceleration of the work on the construction of the ships in question, and that the arrangements and remuneration for such service, outside the contract conditions, are regarded as matters within the discretion of the Admiralty. They desire to place on record their dissent from the view that the authority of this Board was not required for this novel arrangement, which was in fact subsequently abandoned on grounds of policy.*

They also invite the attention of the Board of Admiralty to the desirability of facilitating the performance by the Comptroller and Auditor General of his duties of audit in connexion with advances to contractors with a view to obviating such delays as occurred in this case in bringing an unusual feature to notice.

POSITION OF ACCOUNTING OFFICER AT THE ADMIRALTY.

22. Arising out of the fact that there is no representative of the Accountant General on the Inter-departmental Emergency Committee set up during the War to deal with urgent expenditure requiring Treasury approval, your Committee have inquired somewhat fully into the functions and status of the Accounting Officer at the Admiralty.

The importance of the post of Accounting Officer, not only from the point of view of rendering and certifying the Apropriation Account but also in the interests of economical administration, has always been recognized both by the Treasury and the Committee of Public Accounts.

This is borne out by the fact that in most of the Civil Departments the permanent chiefs have been designated for this position and it is only in the large spending Departments e.g., Army and Navy and in the Revenue Departments (Customs and Excise, Inland Revenue, and Post

Office), that other officers of high rank have been nominated to fill these posts.

The functions of the Accountant General of the Navy are defined in the Order in Council of 18 November 1885, in which he was appointed Assistant to the Financial Secretary and authorized to act as his Deputy and Assistant.

The additional functions thus appertaining to his office were set out fully in Admiralty Office memo. of 20 September 1888, the most important of which were that all papers affecting expenditure of Naval Funds before going to the Financial Secretary were to be referred to the Accountant General for any observations he might have to offer upon the financial aspect of the proposals, by which means it was claimed that an effective check on the financial administration of the spending departments was brought into operation without impairing the responsibility of the officers under whose direction they were conducted.

It appears, however, from evidence and correspondence handed in (Appendix No. 10) that in 1910, in connexion with a proposed reorganization of the Accountant General's Department under which Class I. and Class II. appointments were to be abolished and replaced by "Intermediates," the Treasury questioned, if the scheme were adopted, the possibility of the due carrying out of these essential duties of the Accountant General, viz: of criticizing all proposed expenditure from the standpoint of cost as contemplated by the Order in Council, and which was also in accordance with the recommendations of the Royal Commission on Civil Establishments, 1887.

The Admiralty replied that long experience had convinced them that such powers of criticism as contemplated above could not in practice be exercised by the Accountant General or any department of the Admiralty, and that the only person who could effectively discharge such functions was the Parliamentary and Financial Secretary, the particular member of the Board on whom that duty was placed by various Orders in Council. The Board of Admiralty, however, recognizing that there must be some machinery within the Department independent of changes of Ministry to ensure the continuous financial criticism, with that object proposed to extend the functions of, and give a more permanent status to, the Finance Committee (which had been constituted in 1892).

The Committee as reconstituted was to consist of the Parliamentary and Financial Secretary to the Admiralty (in the chair), the additional Civil Lord, the Secretary and Assistant Secretary of the Admiralty, the Accountant General, and the Assistant Secretary for Finance Duties (Secretary of the Committee). The most important change was the creation of this last mentioned officer as the permanent official member of the Committee.

He was to examine all important proposals affecting expenditure of naval funds, to act in all financial matters as the Parliamentary Secretary's personal assistant and to be responsible for making all necessary preliminary inquiry and investigation into proposals to come before the Finance Committee. The Treasury, while stating that they would have preferred to maintain and develop the existing organization, under which the Accountant General was the principal assistant to the Financial Secretary and the financial adviser of the Board, did not insist upon their view against the opinion of the Board of Admiralty, and sanctioned the reconstitution of the Finance Committee, together with a salary of £1,000 to £1,200 for the permanent official member to be styled the Assistant Secretary for Finance duties.

A draft Order in Council revising the functions of the Accountant General and reconstituting the Finance Committee was submitted to and approved by the Treasury in October, 1911. Owing, however, to a change in the Board of Admiralty, the Order in Council was not proceeded with, and the changes were brought into operation merely by an office memorandum in September, 1912. (See Appendix No. 11.)

The outstanding features of the present Admiralty financial organization are thus:—

1. The higher functions of the Accountant General under Order in Council have been transferred by an office memorandum to an officer of the Secretary's department who has practically no staff and no touch with the actual expenditure as recorded in the accounts.

2. The Accountant General's remaining share in these functions is mainly personal to himself as a member of the Finance Committee, as the preliminary investigation of proposals and their preparation for consideration by the Committee are not assigned to the Accountant General's department.

3. The composition of the Finance Committee is predominantly non-financial.

4. The Accounting Officer of the Navy has no responsibility whatever for manufacturing, expense, supply, or store accounts, with the result that as soon as cash is converted into any sort of commodity the Accounting Officer loses all touch and control.

In the War Office organization on the other hand, the Financial Secretary has the whole machinery of financial control under his own hand in his own department. The accounting officer there (called the Assistant Financial Secretary) is not only responsible for all accounts of whatever description, but is also the deputy of the Finance Member of Council, and advises the administrative officers at the War Office and in Commands on all questions of Army Expenditure. These functions belong not only to him but to his department throughout. Officers of that department are told off as financial advisers to the administrative departments at the War Office and to the Commanders-in-Chief in the field and in Commands, and close touch is thus established and maintained with expenditure from its inception to its final record in the Accounts. The view prevailing at the Admiralty that financial criticism should first be applied after proposals have been officially formulated by the Sea Lords, with the result that such criticism is likely to be resented if it comes from anyone but a minister, is replaced by a process of friendly consultation and co-operation in all grades of the official hierarchy.

Your Committee do not hesitate to say that their actual experience of the Accounts of the two Departments amply confirms the natural expectation that the War Office system would show the better results in practice. The strength and efficiency of that system lie essentially in the fact that one and the same man handles the actual expenditure in the account and gives financial advice. His knowledge of actual expenditure gives his advice a great part of its value, and the fact that he and his subordinates in touch with the military branches share the discussions on policy as affecting finance and know the real intention enables them to see that the intention is in fact carried out.

At the Admiralty, on the other hand, there is no such vital touch under the hands of one person and his staff between finance and administration. The Accountant General's staff make an estimate of the financial effect of any proposal at its inception but then lose touch with it; the Assistant Secretary for Financial Duties hears of

it at a later stage only if and when it is referred to him by the Parliamentary and Financial Secretary.

As regards the arrangement by which the Accountant General of the Navy has no part in the audit of store and other similar accounts, your Committee are aware of the report by Messrs. Waterhouse and Mills, in 1889, which recommended it, and received Treasury approval. But the lack of any central control over the various classes of store and supply accounts, which has manifested itself in recent years, inclines your Committee to the opinion that the matter requires reconsideration, more especially in view of the impending change in the general form of estimates and accounts.

With regard to the general system of financial control, your Committee cannot but view with grave apprehension the diminution of the powers and functions of the Accounting Officer of the Navy and they are of opinion that there should be an independent inquiry into the whole system of internal financial control at the Admiralty.

My Lords have decided that an inquiry should be made into the system of internal financial control at the Admiralty.

Waiver of Recovery in the case of a Pension fraudulently obtained.

27. The widow of a naval officer fraudulently drew pension for ten years by making false declarations that she had not remarried on the declaration forms which she filled up quarterly. She had used the money for the purpose of educating three sons who had all good records of war service. The Admiralty took the view that if they brought a prosecution in this case their action in so doing would, under the circumstances, be unfavourably commented on, and decided not to prosecute. The Treasury took the view, with which your Committee concur, that extenuating circumstances which may incline a Court to mitigate a penalty are matters for the consideration of the Court, rather than for that of the Executive Department which has been defrauded. This view is strengthened by the fact that frauds of this nature were reported, under the practice at present in force for verifying claims, to be extremely difficult to detect, which renders it more desirable to bring all detected cases into Court. The Admiralty have undertaken to consider the practicability of tightening up their safeguard against fraud by pensioners, and we think it would be well, as we have reported elsewhere, that common methods of action should be agreed upon between the different Departments concerned with pensions administration.

My Lords invite the attention of the Lords Commissioners of the Admiralty to the opinion of the Committee on this case. They await a communication of their views on the practicability of providing additional safeguards against fraud by pensioners.

Store Accounts of the Navy.

Missing and incomplete Accounts.

31. Certain accounts for stores and equipment for services under the control of the Director of Air Services have not been presented and it is difficult to fix responsibility within the Admiralty for the omission. It seems to be clear that the officer who held the appointment had no instructions as to rendering accounts either from the Accountant General for the Navy or from the Director of Naval Stores. It seems to be the custom at the Admiralty to work in water-tight compartments in matters of this kind, but the defect could hardly have

occurred if the principle of the complete responsibility of one Accounting Officer, to which we have referred above, had been properly acted upon.

See Treasury Minute following paragraph 22.

MINISTRY OF PENSIONS.

Interpretation of Royal Warrants.

42. Your Committee reported last year that there was a disposition on the part of the Ministry to interpret the Royal Warrant in a strained and unnatural way, and expressed the view that any action taken under a Royal Warrant should be in accordance with the simple and ordinary meaning of its language. The procedure of the Ministry has now been placed on a proper footing, as the Minister has agreed in correspondence with the Treasury that Treasury concurrence should be obtained in future in any apparent deviation from the plain meaning of a Royal Warrant; that the written protest of the Accounting Officer to the effect that awards were irregular should not be overridden without previous reference to the Treasury; and that the awards made *ultra vires* should not be continued beyond the date of the conditional period for which they had been granted. The Comptroller and Auditor General has reported to us that the arrangements made are working satisfactorily, and the Committee desire to express their satisfaction with this result.

Discrepancies between Signatures of Pensioners.

44. The Ministry have experienced difficulty with regard to Army pensions paid through the Post Office owing to discrepancies between the signatures on the quarterly life certificates returned to the Ministry and on the allowance forms signed at the Post Office when the pension is drawn. The Post Office compare the name and number on the life certificate produced with those on the book of forms, but do not undertake to verify that the person producing the certificate is the person named on it. It is thus possible that pensions may be drawn by some other person on a pensioner's behalf, and that this practice may become a fraud on the Exchequer if continued after the pensioner's death. This would be discovered in a few weeks if the quarterly life certificates were not duly received or were received with a signature different from that recorded in the office. The reports made by the Registrars of Death as to the death of any pensioner also provide a check. It was admitted, however, that the system was not watertight, and we therefore suggest that it should be examined as we have recommended above.

MINISTRY OF SHIPPING.

Audit of Voyage Accounts.

50. Under the scheme of the requisition of liners, the owners were appointed managers to run their own vessels on Government Account, and it was arranged that the voyage accounts should be submitted to and checked by the Accountant firms ordinarily employed by the shipping lines. Subject to the right of calling for accounts for test examination, the Comptroller and Auditor General has admitted the expenditure and receipts included in the accounts against the Vote on certificates of correctness given by the Accountants. The arrangement seems to your Committee to be satisfactory.

THIRD REPORT, 1919. H.C. 223.

Treasury Minute, 2 February 1920.

MINISTRY OF MUNITIONS.

Reports of Comptroller and Auditor General.

5. Your Committee has thought it right in examining questions connected with contracts which have been brought before them to consider whether in his reports the Comptroller and Auditor General has been at all unfair to the Ministry. The representatives of the Ministry have stated in evidence that there had been no undue pressing either by the Treasury or the Comptroller and Auditor General of excessive or minute audit in cases where financial interests did not justify it. (See Questions 3448–3451.) Further, he has been careful to draw attention to improvements and reforms in financial and accounting procedure where they have been effected.

6. As a result of their investigations your Committee have come to the conclusion that there has been no unfairness in the reports of the Comptroller and Auditor General, and they are satisfied that his reports and inquiries have had a very useful effect in assisting to secure recognition of the great importance of financial considerations and accounting regularity, and they attach the greatest importance to the exercise of the powers of making free and independent reports on expenditure which are assigned to him under the Exchequer and Audit Departments Act which they consider he has exercised with due discretion.

The Minister will no doubt be glad to observe the recognition by the Committee of the impartiality and fairness of the Comptroller and Auditor General's reports, and of their valuable results in enforcing financial regularity.

Reforms in Accounting System.

7. As regards particular points to which attention is drawn in the Comptroller and Auditor General's report your Committee note that as a result of the new accounting system charge in the Appropriation Account does not include in all cases final clearance of the Ministry's liability for public funds. Thus in the case of advances to contractors on account, payment to consignors for material delivered to contractors for a further stage of manufacture, and similar incomplete transactions, the original cash disbursed is included in the Appropriation Accounts, and the Accounting Officer obtains his discharge in respect of it.* The accounts are, however, carried as a debit against the contractor in the sectional accounts of the Ministry, and it is only when these accounts show that all due recoveries have finally and properly been made that clearance can be claimed by the Ministry for the public funds which it has had in its charge. Your Committee consider this system to be reasonable and proper.

Examination of Contract Accounts.

10. In course of their inquiry into certain specific contracts, your Committee made inquiries as to the procedure in force for notifying the various departments concerned in cases where the contractor was unsatisfactory. Although it was clear that proper machinery existed through the Board of Trade for notifying all Departments as soon as a firm is put on the " Black List " of any particular Department, it did

* C.f. P.A.C. 1917. 2 at p. 578.

not appear that there was uniformity of action and practice with regard to putting firms—in the case of milder irregularities—on a suspense list and notifying Departments that such action had been taken. Your Committee understand that the Colwyn Committee have made a recommendation to that effect and trust that the necessary action may be taken to carry it out.

My Lords would be glad to receive an assurance that uniformity of practice has been reached in regard to the suspense list and "Black List" of contractors.

Audit of Contractors' Books by Representatives of the Comptroller and Auditor General.

27. In connexion with payments to a firm, as reinstatement of profits, which were based on an examination by a Department Accountant of confidential documents and accounts of the Company, the Comptroller and Auditor General requested that his officers should be associated with those of the Department in that duty. Your Committee are glad to learn that the Ministry concur in this course, as they regard it as of paramount importance that the Comptroller and Auditor General should have access to all documents substantiating payments out of public funds so that he may satisfy himself as to the propriety of the payments.

Board of Trade.

Position of Accounting Officer.

40. From the evidence furnished in the case dealt with in the preceding paragraph and also in other instances brought to the notice of your Committee, it would appear that at the Board of Trade the important duty of examining and scrutinizing, from the financial point of view, all Departmental proposals involving public expenditure is not assigned to the Accounting Officer. In view of the importance of the principle involved in its relation to economy your Committee are of opinion that the matter should be inquired into by the Treasury and put on a proper footing.

My Lords take note of the comments of the Committee in regard to the position and responsibilities of the Accounting Officers to the Board, a matter to which reference has also been made by the Select Committee on National Expenditure in paragraph 51 of their Third Report of 1918. Their Lordships fully share the views of these Committees as to the importance of the principle involved. They have already expressed to the Board their opinion as to the reforms which should be adopted in this connexion, including the recommendation of the Select Committee that proposals for the expenditure of public money should be examined and criticized on financial grounds by an officer of a rank at least equal to that of an Assistant Secretary to the Board.

Air Ministry Appropriation Account.

Aerodrome Construction Accounts.

Investigation by Special Committee.

44. The Comptroller and Auditor General stated in his Report on the Appropriation Account that the test examination applied by his officers to the Air Ministry accounts and records of the expenditure on aerodrome construction had brought to his notice defects in the system of control and accounting of so serious a character that he had decided

to report the circumstances forthwith to the Treasury, and had suggested the appointment of an independent body to carry out a special inquiry, the results of which could be brought before your Committee if necessary.

45. In accordance with this suggestion the Treasury set up a small expert Committee, consisting of Sir Maurice Fitzmaurice, C.M.G. (Chairman), Sir Gilbert Garnsey, K.B.E., of Messrs. Price, Waterhouse, & Co., and Mr. A. T. V. Robinson, one of the Treasury Officers of Accounts, which reported on 12 August last, and their report was remitted to this Committee by the Treasury, and is printed, together with certain correspondence, as an Appendix to our Report. (Appendices Nos. 24 and 25.)

46. We are satisfied that in the circumstances the course adopted was the best suited to secure full and prompt investigation and action, and at the same time was in no way detrimental to the ultimate control of this Committee. We are assured that the normal exercise of the functions of the Comptroller and Auditor General has not been abrogated or suspended during the conduct of the inquiry, and that his examination of the accounts has continued to be unaffected thereby, so that he will be able to report next year on any fresh aspects of the situation that may present themselves.

47. The defects in the accounting system to which attention was called by the Comptroller and Auditor General are in the main established by the investigation of the Committee. They are grave defects, but we do not wish to divert attention from them as dealt with in the Committee's report by summarizing them here. Neither have we thought it necessary or desirable to re-traverse the ground covered by the Committee, whose views, arrived at after very full inquiry, we accept generally on the matters at issue. We have, however, examined the Accounting Officer as to the recommendations contained in the report under notice, and are glad to learn that they have been put into effect practically in their entirety. As a result of the changes introduced in the method of control and accounting, partly originating in the Department itself and partly suggested from outside, it is hoped that a great improvement in the conditions may be reported next year, and we are assured that the system which has been adversely commented upon will not prevail in any future construction works of the Air Ministry.

48. We also thought it advisable, in view of the importance of the position of the Accounting Officer, to give him an opportunity of commenting on the statement in the Comptroller and Auditor General's letter as to the inadequate system of control by the Finance Department in certain matters, notwithstanding that this view had been accepted by the Treasury Committee, who stated that it was fully borne out by the evidence taken before them. From the Accounting Officer's statement to your Committee it appears that he was fully impressed with the necessity of certain of the measures referred to, and did what he could to see that they were carried out.

49. We are of opinion that the Accounting Officer was in a very difficult position. His full and effective control in regard to Works expenditure was temporarily in abeyance owing to the peculiar nature of the Air Ministry organization. But this has now been fully restored and has been accompanied by improved results, and we trust that there will be no further departure from this fundamental principle of departmental finance.

My Lords have had before them the report of the Treasury Committee appointed to consider the subject of the Aerodrome Construction Accounts and have received the comments of the Air Council and of the Army Council in regard to the report and recommendations of the Committee. They would be glad to receive a report from the Air Council on the result of the changes introduced in the methods of control and accounting. They need hardly say that they attach the greatest importance to adequate control of expenditure by the Accounting Officer.

THIRD REPORT, 1920. H.C. 182.

Treasury Minutes, 1 December 1920 and 18 January 1921.

GENERAL.

TRADING ACCOUNTS.

1. In paragraph 7 of his Report on the Vote of Credit Appropriation Account the Comptroller and Auditor General draws attention to the important question of Trading Accounts.

2. The subject is (in the main) a new one: and it appears to be admitted that it has not at present been reduced to order—wide variations as between Departments existing on such matters as the form of the accounts, the debits to be inserted, and the rate of interest to be charged. The Treasury and the Exchequer and Audit Department are both in a position to examine the question comprehensively from a central point of view, and we are glad to learn that these Departments, working together, will attempt, during the next twelve months, to co-ordinate the various accounts kept throughout the public service, with a view to a reasonable measure of uniformity. If the Treasury Officers of Accounts have insufficient time to devote to the question, it might be worth considering whether they should be afforded the assistance of an outside Chartered Accountant.

3. Since Trading Accounts contain an element of opinion as well as fact—e.g., on such points, as the effective life of plant—we think it essential that the Accounts put forward by the officer who is in charge of an undertaking, and who is presumably anxious to shew a profit, should be strictly scrutinized first by his own Department, and subsequently by the Exchequer and Audit Department and the Treasury. The temptation to undue optimism in such circumstances may be considerable.

4. The suggestion that one volume should be prepared for the information of Parliament shewing comprehensively the Trading Accounts of all Departments appears satisfactory: and we should be glad if, at any rate at the outset, a brief note could be attached to each Account explaining the debits and credits included, the rate of interest assumed and the basis on which depreciation has been calculated, and giving any further information likely to be of value to Parliament or to the general public.

5. We shall be interested in due course to receive evidence as to the practical use actually made of the Accounts both in the Department concerned and in the Treasury.

6. This proposal is without prejudice to the realization of the ideal single form of accounts corresponding with estimates of Income and

Expenditure based on the principles recommended in the Seventh Report of the National Expenditure Committee 1918.*

T.M. 1 *December* 1920. *My Lords concur in the general observations of the Committee. Accounts of the Vote of Credit Trading Services to the nearest available date to* 31 *March* 1919 *will shortly be issued. The question of uniformity, so far as that may be desirable in the very varying circumstances of the services for which accounts on a commercial basis are required, is receiving the consideration of their officers. It is already the practice for the accounts rendered by the Departments to be scrutinized by the Treasury, and the results of that scrutiny will, as suggested by the Committee, be summarized in a volume of the accounts of Trading Services to March* 1920, *which it is intended to issue before the next meetings of the Committee.*

"DUAL CAPACITY."

7. We have devoted a good deal of attention to what may be briefly termed "dual capacity" cases, e.g. cases in which an officer of a Department, holding a responsible position, allots a contract either to himself or to a firm in which he is materially interested. Cases of this kind have tended to occur during the war when traders, merchants, and professional men have put their knowledge and powers at the disposal of the Government, working side by side with persons brought up in the traditions of the Civil Service. But, apart from this, it is evident that, as the activities of the State expand, such cases tend to become more common and that they are especially liable to become an occasion for scandals. It is also clear that one difficulty in dealing with the subject is that it is so largely a question of degree. Nevertheless, we think that the subject is one on which instructions to the public service from the Treasury (as the central Department) would be desirable.

8. The Ministry of Munitions (while they do not appear to have taken action on the matter till 11 June 1917) laid down certain regulations (shown in Appendix No. 17) which may be useful in this connexion: and two points, at any rate, seem to us clear. First, an officer should not decide a case in which he is interested, but should ask a colleague to deal with it. Secondly, all the facts as to his interest must be fully disclosed, both to his own Department and (if it be concerned) to the Treasury. If, after such disclosures, he is directed, by a Minister or otherwise, to deal with the case, he can do so with a clear conscience, though the question may then arise whether it was judicious to give him those directions.

A copy of a Circular dealing with this point and various cognate matters which my Lords are causing to be sent to all public Departments is attached to this Minute.

Treasury Circular No. 63/20 (F. 2260) dated 18 December 1920.

THE Lords Commissioners of His Majesty's Treasury have had before them the recommendations contained in paragraphs 7 and 8 of the Third Report of the Committee of Public Accounts, 1920.

2. Reference to the evidence which led to these comments will show that they relate more particularly to higher staff rendering temporary service to Government Departments during the special war emergency, but my Lords consider it desirable for them to restate the views which they themselves hold in the matter in order that the practice of departments may be identical.

* H.C. 98, presented on 31 July 1918.

3. The forms of contract in use in Government Departments contain, in accordance with the provisions of the House of Commons (Disqualification) Acts, 1782 and 1801, a condition that Members of Parliament shall not be admitted to any share or part in contracts made by Government departments. This clause does not operate to the exclusion of Members of Parliament who are members of public companies with more than ten members.

4. The regulations of several Departments already prohibit the acceptance of Government contracts by members of the staff of Departments concerned.

5. Their Lordships, however, concur in the view of the Committee that more definite general directions should be given, and they accordingly desire that instructions shall be given as follows:—

6. Unless the Government official concerned shall have first disclosed fully to the head of his department the measure of his interest in the contract, and permission of such head of department shall have been given for the contract, purchase, or sale to proceed notwithstanding the interest held by a Government official.

(*a*) No Government contract shall be let to an officer of the contracting Department or to any partnership of which he is a member (apart from a corporation of more than ten persons in which he is a shareholder).

(*b*) No Government contract shall be let to any company of which a member of the staff of the contracting Department is a director (except as a nominee of His Majesty's Government).

(*c*) No Government servant shall be permitted to accept a directorship except as a nominee of His Majesty's Government in any company holding a contract with his Department.

7. No purchase shall be made from, and no sale made to, any officer of a Government Department without the express sanction of the Treasury.

8. In no circumstances should any Government official negotiate or arbitrate in any matter affecting a contract, purchase or sale, where, in his private capacity, he is interested either as a principal or as a shareholder in a company being one of the principals to the matter under consideration.

9. Steps should be taken to remind all persons employed by Government Departments that it is their duty, if they have occasion to come in contact with any matter concerning a business organization in which they have an interest (apart from holding shares in corporations of more than ten persons), to disclose that interest to the head of their Department and to ask that some other officer may deal with the case.

10. Departments are reminded that clause 17 of the Order in Council of 10 January, 1910, still applies to permanent civil servants who are by that clause precluded from accepting any post in the management of any society or any trading, commercial, industrial, or financial firm or company which would require the attendance of such officer at any time between the hours of 10 a.m. and 6 p.m.

Treasury Circular No. 52/21 (*F.* 2260) *dated* 24 *February* 1921.

The Lords Commissioners of His Majesty's Treasury have had before them communications regarding the clause to be included in Government contracts as to the admission of Members of Parliament to a share in such contracts, to which reference was made in their letter of 13 December, 1920, No. F. 2260.

In this connexion their Lordships desire that the clause shall in all Government contracts adhere strictly to the wording prescribed by the House of Commons (Disqualification) Act, 1782, a reference

being made at the end of the clause to the Acts of Parliament having reference to the subject as follows:—

"*Members of Parliament.*—No member of the House of "Commons shall be admitted to any share or part of this "contract or to any benefit to arise therefrom (*see* House of "Commons (Disqualification) Acts, 1782 and 1801."

GROSS AND NET BASIS OF ACCOUNTING.

10. In certain instances some discussion arose as to the relative advantages of the gross and net basis of accounting. If both expenditure and receipts are shown in gross, all the facts are set out clearly for the information of Parliament, whereas, if only net expenditure is shown, the transactions are not exhibited in full. This being so, we desire to record our general preference for the former course.

My Lords entirely concur with the Committee as to the general desirability of accounting for expenditure in gross.

VOTE OF CREDIT.

Utilization of Receipts after Cessation of Votes.

16. Our attention was drawn to the procedure, duly notified to Parliament, by a note on the Estimates, whereby receipts connected with the defunct Vote of Credit are still being used to finance the purchase of commodities and for other operations involving recoverable outlay—in the main, meat, sugar, and wheat. We should be glad to be informed how long the procedure is likely to continue and to receive similar information with regard to the Exchange Account (cf. Comptroller and Auditor General's Report,* paragraph 125) the objection to which increases as circumstances revert to the normal.†

FOREIGN OFFICE.

Financial Control.

22. As the Treasury are now reviewing the position of Accounting Officers in Public Departments generally in connexion with their circular of 12 March 1920 (Appendix No. 5), we think that it would be well if they could consider with the Foreign Office the question of financial control within that Department, reporting to us, if possible, when we resume our meetings in the autumn.‡ We may add that, in our opinion, the organization of the Foreign Office is not designed for the undertaking of extensive financial responsibilities, nor is it desirable that its sphere of operations should be enlarged in this direction.

It will be observed that the Committee consider that the system of financial control in the Foreign Office requires to be reorganized. My Lords recognize that during the War and in the period immediately succeeding the Armistice it was necessarily difficult for the financial officers of the Foreign Office to exercise close control over the multifarious expenditure of the Department. At the same time they are entirely of the Committee's opinion that the time has come when a radical change in the functions and position of the Accounting Officer for Foreign Office services should be made.

They hold strongly that the Permanent Under Secretary of State should be the Accounting Officer, and that he should be assisted in regard to his financial duties, as he is as regards his various administrative duties, by an officer of high rank definitely charged with such duties.

* H.C. 116/1920, page 46. † Evidence was given before the P.A.C. of 1921, (Q. 1514 sqq.) as to the necessity for continuing the utilization of receipts and the Exchange Account. ‡ See furthe,r, P.A.C. 3. 1922. 28. at p. 645.

While the Accounting Officer will remain responsible to the Treasury and to Parliament for the general economical administration of the Department, he will look more especially to his financial officer for assistance, not only in the proper accounting for expenditure when incurred but also in the adequate examination, from the point of view of the economy of proposals for expenditure, before they are submitted to the Treasury. My Lords regard it as of the highest importance in the general interests of the public service that all proposals should not merely be criticized from a financial standpoint after they have crystallized into definite schemes, but should rather be framed from the beginning with the assistance at all stages of competent financial advice. They do not doubt that Lord Curzon will concur with them in this opinion, and it is clear that such advice will not be forthcoming and indeed cannot in most cases be expected from purely administrative officers.

My Lords accordingly suggest that in future there should be an officer at the Foreign Office charged with the above duties, and with no other duties; that all departments of the Foreign Office should be instructed that all proposals involving expenditure require to be submitted to this officer at an early stage; that his right to call for and receive full information on the financial aspects of any proposal should be fully recognized, and that it should be a definite departmental rule that all letters to the Treasury proposing expenditure should be signed by this officer.

In order to give this officer the necessary status to enable him to carry out his duties, he should rank as an Assistant Secretary; his appointment (as in the case of all Principal Financial Officers) will require the approval of the Prime Minister, and he will only be removable with similar approval.

CIVIL SERVICES AND REVENUE DEPARTMENTS.

BOARD OF TRADE.

Unreliable Estimating.

40. A sum of £1,000,000 was voted by Parliament in the Supplementary Estimates of July 1918 for "assistance to the Dye-making Industry." In actual fact, no expenditure was incurred on the service during 1918–19, the scheme failing to come into operation so soon as was expected. We need hardly point out the undesirability of laying before Parliament Estimates which cannot be relied on. In normal times when there is no Vote of Credit this involves the grant to Departments of spending power for which there is not justification.

MINISTRY OF INFORMATION.

Disregard of Treasury Authority.

56. The questions brought to our notice by the Comptroller and Auditor General concern two Accounting Officers. We will deal first with those affecting the earlier.

57. This officer was temporarily employed as a Civil Servant, receiving a salary of £1,000 a year. After serving in other capacities in the Department of Information, he was appointed Accounting Officer in May 1917, his successor being appointed in April 1918.

Between April 1918 and the Armistice he discharged administrative duties of a non-financial kind. He was then authorized by the War Cabinet to close down (in conjunction with a colleague) such work of the Ministry of Information as it was clear to them should be closed

down, and to negotiate with the various Government Departments as to transferring to them such functions as it was considered desirable should be retained—subsequently reporting on the action taken for the consideration of the War Cabinet. He left the service of the Ministry on 31 December 1918.

58. The Comptroller and Auditor General mentions in paragraph 2 of his Report the large number of queries raised by his Department on account of the Ministry and the considerable interval which often elapsed between the date at which expenditure was incurred and the date at which Treasury sanction was obtained. The officer was, in our opinion, justified in drawing attention to the difficulties in setting up a system of financial control, but he did not convince us that a real attempt had been made to overcome them.

* * * * *

61. As regards the disregard (in three instances) of Treasury decisions, to which the Comptroller and Auditor General draws attention in paragraph 7 of his Report, we realize, first, that in character and amount the payments, which concerned personal remuneration and allowances, were comparatively trivial and, secondly, that the merits were not absolutely clear, the cases being such that two reasonable people might have taken different views of them. What is clear, however, is that it was the business of the Treasury to decide them and not the business of the officer concerned. His action would only have been defensible if the instructions from the War Cabinet to him as liquidator (quoted above see para. 57) had empowered him to overrule the Treasury, which was not the case. We doubt whether there is on record any instance of so direct a challenge to the authority of the Treasury, and it is impossible for us to overlook it. He undertook in each case to relieve the then Accounting Officer of all responsibility in the matter, both in his capacity as liquidator and personally. After careful consideration we are unable to report that the sums involved, which amount to £101 6s. 3d. in all, constitute a proper charge against the Vote.

My Lords note with satisfaction that the Committee concur with them in regarding the over-ruling of the Accounting Officer's protest against the payment of expenses for which sanction had been refused by the Treasury as a matter calling for serious animadversion.

*They desire that the necessary steps should be taken to recover the sum of £101 6s. 3d. from the liquidator.**

62. The case to which we now pass occurred during the later Accounting Officership.

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A memorandum describing the whole case has been prepared and is printed in Appendix No. 15. We comment upon certain aspects of it.

* * * * *

Under all the circumstances of the case we are not able to report to the House of Commons that the sums in question are properly chargeable against the Vote.

T.M. 18 January, 1921.—My Lords read paragraph 62 of the Third Report of the Public Accounts Committee, 1920, in which the Committee report that expenditure by the Ministry of Information in the year 1918–19 on a Bureau of Commercial Information at Madrid, amounting to £6,416 11s. 5d. is not a proper charge against the Vote.

* See P.A.C. 3, 1921, 14 at p. 624.

This expenditure was incurred by the Ministry without the sanction of the Treasury, and My Lords had felt that, in these circumstances, they must leave it to the Ministry to justify their action before the Public Accounts Committee.

The opinion of the Public Accounts Committee, after hearing evidence from the officers of the Ministry, is recorded above.

My Lords welcome the action of the Committee in upholding those principles of financial control which, in their Lordships' opinion had been gravely traversed in this case.

It remains for their Lordships to consider what action should be taken on the finding of the Committee.

The effect of disallowing a charge made againt a Vote is that the Accounting Officer of the Vote has an item in his expenditure for which he can obtain no discharge and that he is in consequence out of cash to the extent of the charge disallowed. This shortage can be made good either by the recovery of the amounts expended or by a Vote of Parliament authorizing the expenditure and so enabling the Accounting Officer to obtain a discharge for it.

In the present case, without the knowledge of the Accounting Officer, expenditure was authorized and incurred, in time of war, by officers most of whom had no experience of the public service. After a careful review of all the facts, My Lords feel that it will be proper for them, in the very exceptional circumstances of the case, to ask Parliament to authorize by Vote a charge for the major part of the expenditure involved in the establishment of the Bureau.

They are compelled, however, to regard some of the expenditure as unnecessarily extravagant even on the assumption that the Bureau was required, and they consider that those responsible must be called upon to refund part of the sums expended. They propose, therefore, to reduce the amount which they are prepared to ask Parliament to vote from £6,416 11s. 5d. to £5,719 9s. 0d. and to request the officers concerned to refund the balance, viz., £697 2s. 5d.*

NAVY APPROPRIATION ACCOUNT.

Employment of Inland Revenue Valuers in Purchase of Land.

67. We are glad to learn that in connexion with the provisions of new Admiralty establishments, involving the purchase of lands and buildings on an extensive scale, the Admiralty employed with satisfactory results the Chief Valuer of the Inland Revenue. We should like to be informed what is the present policy with regard to the utilization of Inland Revenue Valuers by Public Departments generally and whether that process could with advantage be extended.

T.M., 1 December, 1920. My Lords have this matter under their consideration.

Full Pay Sick Leave of Civil Officers.

68. A case was brought to our notice by the Comptroller and Auditor General in which the Admiralty had reported to the Treasury that in very special circumstances the Board of Admiralty had approved the further grant of two months' ordinary full pay leave to one of their civil officers who was still unfit for duty at the expiration of six months' full pay sick leave, a course which the Treasury found themselves unable to concur in, as being at variance with the general practice of the Civil Service.

* A Vote was taken for surrender of this sum to the Exchequer in 1921-22, Class VI, Vote 7, Subhead G. See also Q. 2205 sqq. P.A.C. 1922. Recovery of the balance was ultimately waived, and it was similarly voted in 1922-23, Class VI, Vote 6, Subhead F.

It appears that this is the first case of the kind which has occurred since that brought to the notice in the Comptroller and Auditor General's Report on the Navy Appropriation Account for 1896–97, paragraph 18.

In Clause 8 (3) of Order in Council of 15 August 1890, it is laid down that continuous sick leave on full salary shall not be granted for any period longer than six months, and the Treasury interpretation of this Clause is that the allowance of full salary shall be limited to a period of six months' continuous sick leave and ordinary leave combined in any one year. (See Treasury Circulars of 2 May 1892 and 24 April 1896, contained in Appendix No. 21.)

In their correspondence with the Admiralty on the case already referred to, which took place subsequent to the issue of the circulars in question, it was admitted by the Treasury that, so far as the wording of the Order in Council of 15 August 1890 is concerned, it contains no prohibition of the grant of ordinary leave in immediate succession to the expiration of six month's full pay sick leave and such grant is, therefore, a matter of discretion on the part of the Heads of Departments not in direct subordination to the Treasury. The Admiralty decision then announced and adhered to in the present case now under review was that, while they have decided as a general rule to adopt the interpretation of the Treasury, as set forth in the circulars already referred to, they reserved to themselves the right of dealing, as they arose, with the cases of officials who entered the service before the date of the Order in Council.

Your Committee are of opinion that this course is not one to which exception should be taken either in the case of civil officers of the Admiralty or of any other Department of State.

As regards the general question they are disposed to think that the Treasury interpretation of the Order in Council is narrow and involves hardship in certain cases, but they do not suggest any general modification, as they understand that the Treasury ruling has for some time past been accepted throughout the Civil Service.

Army Appropriation Account.

Profits from Cinematographs.

73. Some considerable discussion took place between the War Office and the Treasury as to the disposal of profits on cinema records of events connected with the Army, which the War Office, without previous reference to the Treasury, had decided to appropriate for the benefit of military charities.

We are glad to learn that agreement has been reached to the extent that " in the event of a similar receipt in future the question whether " it should accrue to the Exchequer will not be decided without Treasury " approval." And we are of opinion that in border line cases which are not free from doubt, the Department affected will be on safer ground if the Treasury are consulted before a decision is arrived at.

[Treasury Minute on paragraph 74 below related to this paragraph also.]

Question of obtaining Treasury Sanction for Proposals involving Expenditure.

74. Certain cases were referred to in the Comptroller and Auditor General's report dealing with the necessity or otherwise of obtaining previous Treasury sanction to the measures taken.

The only one in which there was any serious difficulty was in connexion with a complicated and difficult question as to the assessment

of officers' gratuities on acting rank, and this hinged on the extent of the Army Council's power of interpreting the Pay Warrant. A similar situation arose in the case of the Air Ministry. The various points of view were fully discussed, and your Committee are satisfied that a reasonable measure of agreement has been arrived at as to the necessity of consulting the Treasury when material financial considerations are involved.

Your Committee wish, however, to emphasize the opinion already expressed in previous reports *e.g.*, Public Accounts Committee Report of 1884, paragraph 141, and more recently in Public Accounts Committee Report, 1918, paragraph 77 (relative to the Ministry of Pensions), that there is a limit to be placed on the power of interpretation, and that when in special cases or under unforeseen circumstances it becomes necessary to deviate in any way from the plain meaning of a Warrant, the concurrence of the Treasury should be obtained.

The Army Council will note the views of the Committee, in which my Lords concur.

My Lords feel no doubt that they may rely on the Army Council's assent to the view expressed by the Committee as to the circumstances in which previous Treasury sanction should be sought for proposals involving expenditure.

FOURTH REPORT, 1920. H.C. 231.

Treasury Minute, 1 February, 1921.

Department of National Service, Ireland.

Expenditure continued after refusal of Treasury Sanction.

7. Reference was made in paragraph 78 of the Comptroller and Auditor General's Report on the Appropriation Account of the Vote of Credit 1918–19 to the fact that the Department of National Service, Ireland, had (despite the fact that Treasury sanction had been definitely and repeatedly refused) continued to the end of 1918 the employment of six officers in their service, viz. a Superintendent of the Women's Branch at £400 per annum, and four representatives at work on aerodromes and one representative at railway reconstruction work at 3 guineas a week each—the total sum involved being £922 10s. 6d.

8. We heard evidence on this subject from the Accounting Officer concerned, who frankly expressed regret for the serious irregularity which had occurred and undertook that it should not be repeated in future. It will be seen from Appendix No. 32 that, having regard to this assurance and the further explanations given by him, the Treasury do not now desire that the expenditure should be disallowed, and in these circumstances we are prepared to pass it. But it is an unsatisfactory feature in the case that the Accounting Officer made no written protest against the payments—which was clearly his duty under the Treasury Minute of 1883 (*cf.* paragraph 16 below.)

My Lords concur in the view expressed by the Committee. There can be no defence for the admission by the Accounting Officer of unauthorized charges against the Vote, unless he has protested in writing against such charge and has been relieved of his responsibility in writing by the head of his Department.

Accounting Officers.

9. We now turn to the subject of Accounting Officers, reserved for further consideration in paragraph 12 of our Third Report. The position of these officers is the foundation of the financial system of the country, so far as Departmental control over expenditure is concerned, and we note with satisfaction the amount of consideration which the Treasury have given to it during the last year.

10. There are two distinct points of view from which the question is of importance. It is to the Accounting Officers that the Chancellor of the Exchequer and the Treasury have usually looked as one of the main instruments for securing regularity and economy in the Public Departments. But the matter does not solely concern the Executive, since it is also through the Accounting Officers that Parliament exercises control, and the power which this Committee possesses of calling upon them to defend the action of their respective Departments and to explain the reasons for which any particular course was adopted constitutes a very valuable check.

11. It is now some fifteen years since the subject was discussed at length before the Public Accounts Committee, and we think that it may be convenient if we summarize the main features in its history. During the last half-century it has received close attention from the Committee of Public Accounts, the Treasury, and the Finance Branches of other Departments, and there is much to be learned from the experience thus gained. At the outset we should, perhaps, mention that the appointment of Accounting Officers from amongst the officers of the Department concerned (which is sometmes *ex officio* and sometimes personal) has, rightly, always been made by the Treasury and not by the Department itself. It is claimed that the case is covered by the concluding words of Section 22 of the Exchequer and Audit Departments Act of 1866, but the term " Accounting Officer " itself is not statutory.

12. While an elaborate discussion of the subject, to which reference may usefully be made, took place before the Public Accounts Committee of 1905, in connexion with Army Finance, the Treasury Minutes of 1872 and 1873 (together with the Supplementary Minute of 1883 on the subject of written protests) remain the authoritative documents. They will be found on pages 28, 34, and 131 of the Epitome of the Reports from the Committee of Public Accounts, 1857–1910 (House of Commons, No. 36 of 1911).

13. The authors of those Minutes set themselves first of all to define the meaning of the terms to be used, and we would observe that, as these have now become " terms of art " with a definite and well understood meaning, it is desirable that they should be used with precision. They distinguished, in particular, between the " Accountant " or " Clerk in Charge of the Accounts " on the one hand, who performed duties of a technical character in connexion with book-keeping and accounts and possessed qualities of a special kind, and the " Accounting Officer " holding a high and responsible position in the Department and selected to render the Appropriation Accounts.

14. They then proceeded to define the duties of the Accounting Officer and to emphasize the significance of his position, observing that he was the person whom Parliament and the Treasury regarded as primarily responsible for the balance in the custody of the Depart-

ment, although he himself might not hold one farthing of it, and that in respect of him, every person having charge of any portion of the money issued to, or received on behalf of, the Department, was simply in the position of a sub-accounting officer.

They added that " it cannot be too distinctly announced that " responsibility for the proper conduct of financial business cannot be " delegated to the subordinate officers who may be placed in charge " of the Departmental Accounts. The signature appended to the Appro- " priation Account would be otherwise an idle form, calculated only to " mislead Parliament."

15. Accounting Officers were to be " responsible for the financial " administration of the grant for the services under the control of " their Departments," " for the proper conduct of financial business," and for " efficient financial administration." Before " making or allowing payments " an Accounting Officer was to satisfy himself as to " the correctness and propriety " of each transaction.

He must not order expenditure which under (i) Act of Parliament, (ii) Order in Council, (iii) Queen's Warrant, (iv) Treasury Minute, or (v) otherwise, he " believes to be wrong."

16. If directed to do so by his superior officer—a term which apparently includes both a permanent official of higher grade and a Minister—he was to represent the objection and the reason for it to such superior officer in writing. If the order was then repeated in writing, he might obey without further responsibility: but, if the officer directing the payment was not the supreme chief of the Department, he was to ask to obtain the authority in writing of such chief before obeying. The responsibility was then transferred to the directing officer, who would be held personally liable.

17. We should add at this point that the conception of an Accounting Officer's function has not remained stationary, and that during the decades which have elapsed since the issue of these Minutes there has been an increasing tendency to regard him as closely concerned with questions of economy and as not restricted to questions of regularity—a postion which was affirmed by the recent Council of Financial Officers and which may now be regarded as definitely established.

18. Finally, the Minutes dealt with the question which has assumed so much prominence in the evidence given before us of the type of officer who should be selected as " Accounting Officer."

In the old days Accounts had been rendered sometimes by the political chief, sometimes by the chief permanent official, sometimes by the Chief Clerk or Secretary and sometimes by the Accountant himself.

It was laid down in the Minutes that for this purpose the political chiefs should definitely be ruled out. " The officer entrusted with the " duty," it was stated, " should occupy a sufficient standing to enable " him not only to exercise a direct supervision and control over the " persons executing the detailed business of account and book-keeping, " but also to influence the working of his department in all those " respects which affect the methods of its receipts or expenditure. " He must also be qualified to represent his Department before the " Parliamentary Committee of Public Accounts."

19. Accordingly the Minute of 1872 took, *prima facie*, the decided view that the Permanent Head of the Department should be selected.

" These conditions are satisfied in the permanent chiefs of the " various Departments. They are responsible for the general conduct " and for the discipline of their Departments. They have the best " means of acquiring a personal knowledge of the staff placed under

" their orders, and their functions would be logically incomplete if, " they were not held responsible for the due discharge of financial as " of other business transacted in their Departments.

" My Lords are therefore prepared to lay down the rule that, in " the exercise of the powers conferred upon them by the Exchequer " and Audit Act, they will nominate, whenever it is practicable, the " permanent heads of Departments to render the Appropriation " Accounts of grants for the services under their control."

20. But Departments were invited to state their views before a final decision was taken: and certain of them demurred, principally on the ground that the Head of the Department was already fully occupied and that, if he were required in addition to undertake financial responsibilities, those responsibilities would in reality be nominal. Accordingly the Minute of 1873 admitted the necessity of exceptions to the rule.

" My Lords are, however, aware that in some cases, as, for instance, " in the offices of Secretaries of State, and in Departments presided " over by Boards, the appointment of the chief permanent officers " would not be calculated to insure that real responsibility for financial " administration combined with the utmost official convenience, which " it is their desire to attain in the arrangements which are now to " be made.

" The desired result will be attained, as my Lords believe, in the " limited number of cases to which the foregoing remarks apply, by " the appointment of the salaried person holding the next highest " position to the permanent head, with the exception only of those " Departments in which officers of high standing, and performing " duties of a strictly financial character, are included.

" In the nomination of ' Accounting Officers,' as hereinafter " mentioned, my Lords wish it to be clearly understood that, while " their selection is guided, as before stated, by the object of combining " real responsibility with administrative convenience, they on no " account intend to relieve the permanent heads of those Departments " in which they may not be appointed to undertake the duties in " question from their liability for the proper conduct of the financial, " as of all other, business under their control."

21. In point of fact, the actual development of the system has been somewhat as follows. Setting aside a few cases in which the " Accountant " or head of a relatively small Finance Branch became Accounting Officer, three, or perhaps we should say four, categories arose.

(i.) In the case of a Department of moderate size, the Treasury endeavoured to maintain its policy of selecting the permanent head as Accounting Officer.

(ii.) If it was unable to do so, it fell back on the nomination of the next highest administrative officer available (not necessarily possessing technical financial qualifications).

(iii.) When a Department became too big for these two expedients a special Finance Branch was set up with an expert head of the " Accountant General " type, and he was selected as Accounting Officer.

(iv.) The Service Departments formed a special class within the last category.

22. During the years immediately preceding the War special importance was attached by the Treasury to the Accountants General.

They seem to have realized that, with the increase in the machinery of Government, financial control from the centre was becoming more and more difficult and to have relied on the creation of these outposts—or *propugnacula imperii* as one witness termed them. The Accountants General were, of course, officers of the Department in which they served (with the exception that the Comptroller and Accountant General at the Post Office was appointed, not by the Postmaster General alone, but by the Postmaster General with the concurrence of the Chancellor of the Exchequer) but they worked in close touch with the Treasury and were a valuable link between the Treasury and the Department. The Treasury appear to have closely watched the increase of old Departments and the creation of new ones from this point of view and to have arranged for the creation of fresh Accountant Generalships as they became necessary.

23. The actual position at the time of the presentation of the Estimates for 1920–21 is shown in a table prepared by the Treasury and Exchequer and Audit Department and printed as Appendix No. 34. 61 Accounting Officers were Heads of Departments, 16 were Accountants General, 21 were other subordinate officers, some with, and some without, special financial qualifications.

24. This was, broadly speaking, the situation which existed in the autumn of 1919, when attention was again directed to the matter. It will be seen from Appendix No. 5 to our Third Report that in November and December of that year the position of Accounting Officers was considered by a " Council of Financial Officers " under the Financial Secretary to the Treasury, with special reference to a recommendation by the Select Committee on National Expenditure* (which they did not endorse) that the Accounting Officer of each spending Department should be a Treasury official appointed by and solely responsible to the Treasury. The Council made various valuable suggestions for strengthening the hands of Financial Officers. It was pointed out to us in evidence that, *inter alia*, they recommended (paragraph 3) " that in all cases in which a special Financial Officer " exists responsible for the financial criticism of administrative measures, " he should hold the post of Accounting Officer." On the other hand, they also observed " that there is a tendency on the part of adminis- " trative officers to evade financial control on the plea of high policy " or otherwise." And they recommended that " criticisms from the " Financial Officer should not be limited by any narrow interpretation " of the province of finance, but should be allowed the fullest scope " where any possibility of substantial economy is involved." Finally they observed that " when the Chief Financial Officer of a Public " Department is not the Permanent Secretary or head of the Depart- " ment the relation between him and his permanent chief requires " very careful adjustment. We think it most undesirable to encourage " the idea that the functions of the permanent head are divorced from " or antagonistic to finance, or that the existence of a separate Financial " Department in any way relieves other officers of their duty to be " economical," and they discussed in some detail the rules of procedure to be laid down on this point.

In the case of the Service Departments, i.e. Admiralty, War Office, and Air Ministry, they recommended as the best safeguard for finance that the status of the permanent civil servant in charge of financial duties should be improved by his being made a member of the Council or Board.

* 1919.

25. On 12 March 1920 the decisions of His Majesty's Government on the recommendations of the Council were communicated to Departments by a Treasury Circular. They included the following heads, viz:—

"(1) *Service Departments.*—One of the most important functions of the permanent civilian element is to secure economy in administration, and accordingly the Permanent Civilian Head of the Department must be made directly responsible to the Ministerial Head of the Department for the control of expenditure, and should be given for this purpose the status of a full member of the Council or Board.

"(2) *Civil Departments.*—For economy in policy and in management the Permanent Head of the Department must be held ultimately responsible (under Ministers), and the inclusion on his staff of a Finance Officer (who is his subordinate) does not relieve him of the responsibility.

"(3) In all matters of staff organization and office management the officer to be held responsible for economy by the Permanent Head of the Department is the Principal Establishment Officer.

"(4) The consent of the Prime Minister is required to the appointment or removal of Permanent Heads of Departments, their Deputies, Principal Financial Officers, and Principal Establishment Officers."

26. Sir Warren Fisher, Permanent Secretary to the Treasury, has attended before us on two occasions to explain the new arrangements, and he made it clear that, as part of the policy of making Permanent Heads of Departments specially responsible for control of expenditure and for economy, it is intended in future to nominate them as Accounting Officers. This is subject to further consideration in the case of the Revenue Departments and possibly one or two other Departments.

27. We would note that neither in the Committee's report nor in the Treasury circular was any specific recommendation or change made with regard to the Accounting Officership, and that it would have been more in accordance with previous practice had no decisions upon this matter been arrived at before the views of your Committee had been obtained.

28. We have already (see paragraph 21), set out the various categories of Accounting Officers existing on the basis of the Estimates for 1920–21. In the first, the arrangement which Sir Warren Fisher recommends already exists: the second is from our point of view practically non-controversial, since the nomination of a Permanent Head is clearly preferable to the nomination of a subordinate officer without financial qualifications, supposing always that the former has time for the proper performance of an Accounting Officer's duties and that the Treasury can persuade him to undertake them. We could, for example, have no objection, but rather the reverse, if the Permanent Heads of the Home Office and Colonial Office assumed the Accounting Officership of their Departments and we believe that the same plan may with advantage be applied to the Foreign Office.

29. When, however, we come to the third category, the proposal that the Accountants General should cease to be Accounting Officers is not equally free from doubt. There is general unanimity about the object to be obtained, viz., closer financial control, but the question is which of two methods is more likely to attain it. We propose to set out both sides of the case, including amongst the objections various points raised by members of the Committee and somewhat amplified by the Assistant Comptroller and Auditor.

30. The following table gives a full list of the Departments with Officers of the Accountant General type: but the Service Departments form a special class and the Revenue Departments were expressly reserved for further consideration. The discussion, therefore, turns on the eight permanent Civil Departments—and also on any Departments which may in future be organized in the same way.

Department and Subsidiary Accounts.	Rank of Accounting Officer*	Salary on the basis of the Estimates for 1920–21, where applicable.
		£
(a) SERVICE DEPARTMENTS.		
Army	Joint Secretary.	1,800.
Navy	Accountant-General	1,500.
Peterhead Harbour		
Air Ministry	Assistant Financial Secretary.	1,500.
(b) REVENUE DEPARTMENTS.		
Inland Revenue	Accountant and Comptroller General.	1,000–1,200.
Post Office	Comptroller and Accountant General	1,000–1,200.
Customs and Excise	Accountant and Comptroller General	1,300.
Old Age Pensions		
(c) OTHER DEPARTMENTS (PERMANENT).		
Treasury and Subordinate Departments.	A Principal Assistant Secretary (Treasury Officer of Accounts.)	1,200–1,500.
Rates on Government Property.		
Cabinet Offices.		
Privy Seal.		
Secret Service.		
Miscellaneous Legal Expenses.		
Scientific Investigation.		
Universities and Colleges and Special Grants.		
Serbian Relief Fund.		
Telegraph Subsidies.		
Miscellaneous Expenses.		
Temporary Commissions.		
Repayment to Local Loans.		
Repayment to Civil Contingencies.		
Expenses under the Representation of the People Act.		
Development Fund (Grant in Aid and Fund).		
Mission of H.R.H. Prince of Wales to India.		
Loans to Allies.		
War Bonus.		
Advances for German Coal Deliveries.		
Civil Contingencies Fund.		
Consolidated Fund.		
Government Hospitality Fund.		
Exchange Account.		

* The Committee also gave the names of the officers who then held these posts.

Department and Subsidiary Accounts.	Rank.	Salary on the basis of the Estimates for 1920–21, where applicable.
		£
Ministry of Transport - - -	Director-General of Finance.	2,500.
Harbours.		
Railway Agreements.		
Coastwise Transport Subsidy.		
Canals Compensation.		
Road Improvement Fund.		
Ramsgate Harbour.		
Electricity Fund.		
Board of Trade - - - - -	Assistant Secretary for Finance.	1,000–1,200
Mercantile Marine.		
Coal Mines Deficiency.		
Export Credits.		
General Lighthouse Fund.		
Timber and other Trading Services.		
War Risks Insurance.		
Ministry of Health - - - -	Accountant General	1,200–1,500.
National Health Insurance Joint Committee - - - - -		
Ministry of Labour - - - -	Accountant General	1,200–1,300.
Board of Education - - -	Accountant General	1,000–1,200.
Ministry of Pensions - - -	Director-General of Finance.	1,200.
(d) Other Departments (Temporary)		
Ministry of Shipping - - -	Accountant General	1,200.
Ministry of Munitions - - -	Joint Secretary.	1,500.
Cf. also		
Bread Subsidy, Purchase and Sale of Cereals, etc.	Director of Finance (Royal Commission on Wheat Supplies)	1,500.

31. Sir Warren Fisher had evidently taken great pains to think out his scheme from every point of view and to make it thoroughly watertight. He based his evidence on the proposition that at present the Permanent Head of a Department had no responsibility for finance.

32. We are not quite convinced that, either in war time or under normal conditions, a Permanent Head is in a position to wash his hands, in the last resort, of responsibility for extravagance or even financial irregularity. We recognize, however, that at present a certain *imperium in imperio* exists and that a considerable responsibility, not so much for initiating expenditure as for refraining from demurring to it, rests with the Accounting Officer, instead of being placed fairly and squarely on the Permanent Head.

33. To meet this point Sir Warren proposed that the Permanent Head should be definitely made Accounting Officer and should regularly attend the meeting of this Committee. He was, however, to bring his deputy, the Accountant General, to assist in answering questions as to both economy and regularity.

34. Sir Warren also carefully explained the precautions which he wished to take to safeguard the Financial Officer's status. He was not

to be under the rank of an Assistant Secretary; he was to be responsible to the Permanent Head (*a*) for technical accounting and financial regularity, (*b*) for Estimates and all questions of proper charge against the Vote, (*c*) for financial criticism of all proposals involving expenditure; questions on such points were to be submitted to him before any particular proposal came before the Permanent Secretary; he was to be enabled to demand the fullest information in connexion with them; and, as a rule, he was to sign letters to the Treasury. It was therefore the express intention to raise rather than lower the status of the Financial Officer.

35. Sir Warren's proposal had a further advantage in the way of co-ordination. So long as the Financial Officer remains Accounting Officer his relations with the Establishment Officer are difficult of adjustment: if the Permanent Head becomes Accounting Officer the Financial Officer and Establishment Officer fall into place as two subordinates of his working in close touch with each other.

36. There is clearly a great deal to be said for this proposal. Whilst most of the Accountant Generalships did not exist in 1872, Sir Warren virtually revived the principle laid down in the Treasury Minute of that year that the functions of Permanent Heads " would be logically " incomplete if they were not held responsible for the due discharge " of financial as of other business transacted in their Departments." It must be frankly recognized that, despite the attention which has been given to the subject, the theory of the Accounting Officership has never been worked out—and is hardly capable of being worked out—to a completely logical conclusion. The doctrine that there is an *imperium in imperio* and that the Head of the Department delegates to the Accounting Officer certain powers, even as against himself, is an attempt to reconcile the conflicting responsibilities of the two parties, but would hardly afford a solution in the event of a serious clash. The Head of a Department may be influenced in the direction of extravagance by various motives—a genuine interest in the subject matter of his work, a desire for smooth working, a wish to stand well with his Minister, and we agree with Sir Warren that there is a special danger at present lest, given an extravagant Minister, the Permanent Head may range himself with him rather than with the Accountant General.

37. The other side of the case may be stated as follows.

The Committee of Public Accounts have power to send for persons and papers, and therefore they already can, without any change of system, send for the head of a Department on a point of cardinal importance.

Even fifty years ago Heads of Departments were representing to the Treasury the difficulty of acquiring financial knowledge amongst the pressure of other duties. That pressure is now immensely greater, and it is arguable that the evidence given by the Permanent Head would tend to be of an amateur nature and it would be a substantial loss to the Committee if the expert officer, versed in the history of finance and thoroughly steeped in all its traditions, were relegated to the second place.

38. Turning from the question of the work connected with this Committee to that of daily administration, it is contended that the Financial Officer loses his principal weapon if he no longer possesses the status of Accounting Officer and the power of written protest under the Treasury Minute of 1883. At present he may on occasion have to use this weapon, not only against subordinate members of the Department, but against his chief.

39. It may be contended that, if the Head of a Department misused his position and committed either an extravagance or an irregularity, he would be obliged to defend his action before us. But this argument assumes that he has been detected; and it cannot be regarded as certain that the Exchequer and Audit Department would necessarily discover all cases against which the Financial Officer, with inside knowledge, might raise a protest.

40. There is also, we believe, weight in the contention that the actual handling of accounts is the best basis for the most fruitful criticism of expenditure. We expressed this in our Second Report of 1919 when saying with regard to the War Office system of accounts that its strength and efficiency " lie essentially in the fact that one and " the same man handles the actual expenditure in the account and " gives financial advice. His knowledge of actual expenditure gives his " advice a great part of its value."

41. After weighing all the considerations we have come to the conclusion that the adoption of the new system will lead to improved financial control in the Service Departments, and probably also in the minor Civil Departments.

42. We are of opinion, however, that the new arrangements require further consideration, particularly with regard to the Civil Departments mentioned in para. 30 above, where the work of the Department is so heavy that it will be extremely difficult for the Permanent Head to be in any true sense specially responsible for finance; and we are glad to have received an assurance from Sir Warren Fisher that he is giving full consideration to the matter and is proposing to convene a meeting of Heads of Departments concerned to thrash the question out. We shall be in a position therefore to inquire next year as to the progress made, both in the case of the Civil Departments and the Service Departments, where, except as regards the War Office, the arrangements are still under special review.

43. If our view of the probable results of the change is to be justified, it seems to us essential that the heads of Departments should work together as a team in the pursuit of economy in every branch and every detail of the public service. The imperative necessity for securing economy in every department of public (as, indeed, of private) life, if national bankruptcy is to be avoided, is not yet sufficiently recognized. Nothing will accomplish it but a return to the almost forgotten tradition established by Mr. Gladstone, and carried on by Sir Michael Hicks Beach, under whom the financial policy of the State was " by saving numerous pence to spend effective pounds." * *

44. From this point of view we think it right to fix upon high officials a special responsibility for vigilance and care in spending public funds. If they are able to act together as a body, under firm guidance, they may, while in no way relieving Ministers of their over-riding responsibilty, have an importance and influence second only to that of Ministers in accomplishing the most critical and difficult task that lies before them.

My Lords have given, as the Committee have given, very careful consideration to this subject, the vital importance of which both they and the Committee recognize.

They are glad to note that the Committee agree as regards the Service Departments and the smaller Civil Departments in the conclusions at which they have themselves arrived. With regard to the larger Civil Departments, such as the Board of Education, the Ministry of

Health, the Ministry of Labour, the Ministry of Transport, the Ministry of Pensions, and Board of Trade, my Lords propose, as stated by the Committee, to discuss the application of the general principle with the responsible heads of the Departments concerned.

They wish to add that they are in entire agreement with the desire of the Committee that heads of Departments should work together in the pursuit of economy in every branch and detail of the public service.

45. We have two minor points to mention in conclusion.

(a) It appears to us that perhaps insufficient regard is paid to the annual certificate by the Accounting Officer as to the obtaining of authority superior to that of the Department in cases where such superior authority is required by the Regulations. This certificate is not intended as a formality, and, if a clear certificate cannot be given owing to the Accounting Officer's views being overruled by his political or permanent chief, then the necessary qualifications should be added when it is signed. We suggest that the Treasury should consider whether it is desirable to extend the requirement of this certificate which is now limited to the three Service Departments, together with the Ministries of Munitions, Shipping, and Pensions, to the more important of the Civil Departments, including those newly-formed.

(b) When a change occurs in an Accounting Officership, a question may arise as to whether the former occupant of the post should defend his decisions or whether he should be represented by his successor. The latter arrangement is inevitable in the event of death or serious illness: but our general feeling would be that personal responsibility should be maintained. We should be glad to learn the views of the Treasury.

(*a*) *My Lords entirely concur in the view of the Committee that the annual certificate given by Accounting Officers in certain cases, that authority superior to that of the Department concerned has been obtained where required, must not be regarded as a formality. They propose to give careful consideration to the suggestion that this certificate should be required in an extended number of cases**.

(*b*) *The Committee invite an expression of their Lordships' opinion on the question of responsibility when a change occurs in an Accounting Officership.*

My Lords regard the personal responsibility of the Accounting Officer for the account which he signs as fundamental.

If an Accounting Officer takes office during a period of account and subsequently signs the accounts for the whole year, he thereby accepts responsibility for the whole of that account and must take such steps as he considers necessary to satisfy himself that the preliminary accounts for the months during which he was not actually Accounting Officer are correct before using them as the basis for the final Appropriation Account which he renders.

At the same time they consider that the officer who was actually responsible must also hold himself ready to attend before the Committee (who have power to send for persons and papers) and supplement the explanation of the Accounting Officer if the Committee desire him to do so. It should be recognized that he is not relieved of this duty by the appointment of a successor even where the account is actually signed by that successor.

If the incoming Accounting Officer is not satisfied with regard to his predecessor's incumbency he should sign the final accounts (which

* See P.A.C. 1923. 84 at p. 670.

he actually renders) subject to qualification as regards specific items for which he feels unable to accept responsibility. In that case his predecessor will naturally be summoned by the Committee on these points.

It is hardly necessary to add that when an Accounting Officer has relinquished his appointment after *signing an account he remains liable for all matters in that account and must attend before the Committee in respect of it if so required.*

The responsibility of Accounting Officers in the above respects should be made clear to each officer at the time of his appointment.

THIRD REPORT, 1921. H.C. 212.

Treasury Minute, 24 November 1921.

GENERAL.

VIREMENT.

1. Under the name of Virement, the Treasury have long exercised the right, with the subsequent confirmation of Parliament, to authorize the Admiralty, the War Office, and the Air Ministry, to apply any surplus under one Vote to meet an excess of expenditure on another. This right has been given to the Treasury each year by the Appropriation Act, and its exercise confirmed by the Appropriation Act of the next year. Under the new form of Army Estimate, introduced for the first time in 1919–20, the Vote for the Army is taken in one round sum.* Therefore, the question of virement between Votes for cash no longer arises in this case. Virement from Vote to Vote remains, however, in the Navy and Air Ministry; and in the War Office there remains the question of virement between Heads of Expenditure, which is dealt with later on in the portion of our Report relating to the Army.

2. The power of virement between Vote and Vote is not in force for the Civil Departments, but the other form of virement is employed, by which the surplus under one subhead is used to meet an excess on another subhead of the same Vote.

During the course of evidence numerous instances attracted our attention in which the Treasury had authorized the utilization of savings on a subhead either to meet large excesses on another subhead or (which is a stronger measure) to defray the cost of services not expressly authorized by Parliament, but considered by the Treasury to be comprised within the ambit of the Vote, though not coming within any existing subhead.

3. Although the power of virement has more than once been considered by the Public Accounts Committee and also discussed in Parliament, we thought it advisable, especially in the present financial position, to invite the Treasury representative to give us an authoritative statement (Q. 1058) of that Department's view on the subject. This statement, in our opinion, fully and accurately presents the practice which has been generally acquiesced in by Parliament.

4. We think it right to point out that it is mainly by the exercise of this power of virement that expenditure not specially provided for in the Votes of the House of Commons can be incurred with impunity in anticipation of Parliamentary sanction.

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* With the abandonment of the new form of Estimates, the system of providing for Army Services under a number of Votes was resumed in 1926-27.

5. A few striking instances of virement taken from the accounts of the year are * * * *

6. The examples are taken almost at random and could be largely multiplied. Thus, in the Navy Accounts surpluses of 7½ millions on certain Votes were used to the extent of 4 millions to meet overspending on other Votes, or, in one case, on sections of a Vote. Very large sums, e.g., £2,116,000 overspent on fuel, &c. for the Fleet, are met out of unexpectedly large receipts under Appropriations in Aid.

We do not suggest that these sums were wasted, or were improperly appropriated according to the custom hitherto prevailing, but we think it right to call attention to the fact that large sums are thus applied, subject to Treasury sanction, to purposes not expressly authorized by the Parliamentary grants.

We view with some alarm the recent extension of this practice, and we are of opinion that the time has come when the Treasury should more jealously restrict the exercise of this power.

7. In the case, therefore, of the Navy and the Air Force we are of opinion that, where an excess on any Vote is due to a change of policy or programme, Parliamentary sanction should be obtained by a token Supplementary Estimate, for the appropriation of surpluses on other Votes to meet that excess.

8. In the case of virement between subheads of the Vote we think that, as part of the process of re-establishing Parliamentary control over expenditure, a stricter interpretation should be given to the rule (Q. 1106) that " the Treasury would not be prepared to allow an old " subhead to be exceeded or a new subhead to be opened if they " thought the expenditure in question either from its amount or from " its nature was such that Parliament ought to have cognizance of it " before it was spent " and (Q. 332) that for a large item, especially a new work, sanction in advance of Parliamentary sanction should be given " very sparingly indeed." Services which are large or novel or contentious or which, while small at the outset, involve heavy liabilities in future years, ought not, save in very exceptional circumstances, to be undertaken without the previous authority of Parliament. This rule should also apply to general increases of salary, especially when they raise questions of principle.

My Lords desire to point out that Parliament does not authorize specific subheads of a Vote or specific items in a Vote. It authorizes on each Vote the grant of a single total sum to His Majesty for the purposes set out in Part I. of the Vote and in the schedule to the annual Appropriation Act. While the Estimates in most cases contain, for the information of Parliament, a subdivision of these totals into various subheads, these subheads are not as such voted by Parliament. Within the total of a Vote—which cannot be exceeded without Parliamentary authority—and provided that no expenditure is incurred which does not fall within the ambit of the wording of the Appropriation Act passed by Parliament, discretion has always and, in their Lordships' opinion, must always be given to the Executive if the business of Government is to be carried on. The exercise of that discretion is vested in the Treasury, not in the actual spending Department. Its use is obviously a matter requiring very careful consideration of the circumstances of each case : and the Treasury has to decide, in any given case, whether the proposed new expenditure is of such importance or so great a departure from the original items in the Estimate as to require to be brought specially before Parliament or not.

My Lords in the exercise of the power of virement will bear in mind the views expressed by the Committee, with which they are largely in agreement; but they are inclined to doubt the expediency of attempting too precise a definition in general terms.

My Lords do not entirely agree with the Committee that there has been "a recent extension of the practice of virement." The principles on which their Lordships have acted have not been different either from previous practice or from what, if they rightly understand the views of the Committee, is now recommended. The number of cases of virement has, of course, been larger, partly because of the larger totals of expenditure, but mainly because the accounts before the Committee were those of the year 1919–20. The Estimates for that year were of an exceptional character in that they were prepared immediately after the cessation of hostilities, and in the midst of the many financial problems and uncertainties attendant on demobilization. My Lords, however, decided that, notwithstanding these difficulties, it was desirable in order to increase Parliamentary control that the ordinary detailed Estimates should be re-introduced at the earliest possible moment in place of the war system of Votes of Credit. In these circumstances it was inevitable (as was foreseen in the Financial Secretary's memorandum on the Estimates) that the Estimates could not make accurate allowance for all the changing circumstances of the year, and, even after the exercise of their powers of virement, it was necessary to submit to Parliament an unusually large number of Supplementary Estimates.

My Lords anticipate a progressive return to normal conditions in the accuracy of estimating and a consequent diminution of the need for virement; and they will look to Departments for the realization of this anticipation.

In this connexion the procedure laid down in Treasury Minute of 20 August 1889 (Epitome of the Reports of the Committee of Public Accounts 1857 to 1910, pp. 227–29), must be followed as regards Air Service and Naval Votes, and similar action must be taken as regards Civil Votes.

As regards the utilization of certain savings on Air Service Votes 1919–20 to meet overspending on other Votes, my Lords desire to remark that virement was not in fact authorized in this case by their Lordships but by the grant by Parliament of an excess Vote. In a Treasury letter dated 10 February 1921, my Lords stated that :—

> *"As the gross provision for Air Services has been exceeded, "my Lords are unable, until an Excess Vote has been taken, to "sanction the use of savings on certain Votes to meet deficits on "other Votes, nor have they any funds available from which "advances can be made for Air Services. It will be necessary for "the matter to be considered by the Public Accounts Committee "as soon as the Committee reassembles, and for an Excess Vote to "be passed in Committee of Supply before 31 March next."*

Similarly my Lords refused their authority for the transfer of savings to meet excesses on Naval services until an Estimate of Excess had been presented to Parliament and passed, and they would not feel justified in granting authority for transfers of funds in any case in which it was clear that Parliamentary sanction for an Excess Vote was necessary.

Accounting Officers.

9. The Treasury recommended—and the Public Accounts Committee last year on the whole saw no objection to the proposal—that in the Fighting Services Departments the Head of the Department

should be the Accounting Officer. It must be remembered that in those Departments he is the head of the civilian side only, and the military chiefs, who are responsible for policy and initiate expenditure, are not responsible to him. He is, therefore, the natural custodian of economy, as well as of regularity, and the proper person to answer for both to the Public Accounts Committee.

In the small Civil Departments the Head has not so much to do that he cannot be responsible in fact, as well as in theory, for economy and for regularity at the same time: he may well be expected to have a knowledge of the detail of his Department. Moreover, being small, it cannot well develop within itself a complete financial section, side by side with an administrative section. The Head of the Department is, therefore, the real working head of the financial, as well as of the administrative, side of the Department and as such he is the proper person to be Accounting Officer, and to answer for his Department to the Public Accounts Committee. So far the practice is settled.

10. This year there has been further examination by us of the point left over for consideration, viz,:—the question of who should be Accounting Officer, and answer to the Public Accounts Committee both for regularity and economy, on behalf of the larger Civil Departments. At first it might seem as if logic required that, as in the Service Departments, the permanent Heads of these large Civil Departments, and not the Heads of the financial side of the Departments, should be made the Accounting Officers, and therefore become directly responsible for regularity and economy as well as for success in administration. It is, however, to be remembered that the permanent Head of a Civil Department is in fact the Head of all the officers in that Department, and not merely of one element within it, as in the Service Departments. It is therefore argued by some that, in the great Civil Departments, to place the functions of certifying to regularity, and of criticizing in the interest of economy, in the hands of the man responsible (under the Minister) for initiating expenditure would come dangerously near to extinguishing financial criticism within the Department altogether. It is argued further that it would also confront the Public Accounts Committee each year with an Accounting Officer who had not real personal day-to-day knowledge of the finance side of his Department, while the man who had such knowledge would only appear as his subordinate to be referred to on points of detail.

11. After carefully weighing the arguments on both sides of the question your Committee consider it is not desirable to make any further change at present, especially as the recommendations above referred to as regards the Fighting Services Departments have not yet been brought fully into operation, and we regret that the Admiralty have not yet made the long promised report as to the new procedure to be adopted in that Department.* Meanwhile we think the practice hitherto pursued in the large Civil Departments should be maintained for the present, and the Head of the financial side of the Department (not the permanent Head of the whole Department) should continue to be the Accounting Officer.†

12. Your Committee have further considered whether, even if the Heads of these larger Civil Departments themselves became the Accounting Officers certain rights as to regularity and economy hitherto belonging to the Accounting Officer should in future attach, not to the

* See further P.A.C. 8. 1922. 80, at p. 651.
† See further P.A.C. 2. 1925. 6, at p. 686.

Accounting Officer, but to the Head of the financial branch of the Department.

The rights we refer to are those set out in our Report last year, as follows:—

> " 15. Accounting Officers were to be ' responsible for the financial administration of the grant for the services under the control of their Departments,' ' for the proper conduct of financial business,' and for ' efficient financial administration.' Before ' making or allowing payments ' an Accounting Officer was to satisfy himself as to ' the correctness and propriety ' of each transaction.
>
> He must not order expenditure which under Act of Parliament, Order in Council, Queen's Warrant, Treasury Minute, or otherwise, he ' believes to be wrong.'
>
> " 16. If directed to do so by his superior officer—a term which apparently includes both a permanent official of higher grade and a Minister—he was to represent the objection and the reason for it to such superior officer in writing. If the order was then repeated in writing, he might obey without further responsibility; but, if the officer directing the payment was not the supreme chief of the Department, he was to ask to obtain the authority in writing of such chief before obeying. The responsibility was then transferred to the directing officer, who would be held personally liable.
>
> " 17. We should add at this point that the conception of an Accounting Officer's function has not remained stationary, and that during the decades which have elapsed since the issue of these Minutes there has been an increasing tendency to regard him as closely concerned with questions of economy and as not restricted to questions of regularity—a position which was affirmed by the recent Council of Financial Officers and which may now be regarded as definitely established."

Since March 1920 the Accounting Officer has been empowered also when overruled on a question of regularity to notify such a case to the Treasury, and to communicate the papers to the Comptroller and Auditor General.

13. Where the permanent Head of the Department himself becomes the Accounting Officer, these rights will, in the absence of new regulations, vest in him alone, that is to say, they will practically cease to exist; the permanent Head clearly cannot exercise them against himself, and his exercising them against the Minister is not perhaps very probable. It is argued, therefore, that the Head of the Financial Department should have the right of laying his views on regularity and economy before the Minister, the Treasury, and the Comptroller and Auditor General. This right he would, of course, be required to exercise through the permanent Head of the Department.

We consider that this should be borne in mind before any decision on the major question is arrived at.

14. As evidence that the responsibility of Accounting Officers is no mere theory, we are glad to know that the disallowance recommended in paragraph 61 of our Third Report, 1920, has been duly effected, the Accounting Officer of the Ministry of Information having repaid to the Exchequer from his own pocket the sum of £101 6*s.* 8*d.*

My Lords note the observations of the Committee.

Suspense Accounts.

15. In many cases large sums, which have been spent quite properly within the year are nevertheless not shown in the Appropriation Account for that year, but are charged to a suspense account until the transactions to which they refer are completed. The result is that an apparent surplus to be surrendered is in part non-existent, the money having been already spent. We think that the nature and amount of such suspense accounts should appear on the face of the Appropriation Account of each Department in which they exist.

16. Our attention was also drawn to the fact that large suspense accounts were in many cases long outstanding, mainly in the accounts of the Navy. We recognize that this is largely due to the aftermath of the War. But we are not satisfied that sufficient efforts were made in some cases to clear them up and we are strongly of opinion that, now that conditions are reverting to the normal, steps should be taken to reduce them to the minimum.

My Lords have on many occasions expressed their view that suspense accounts should only be opened in certain well defined circumstances.

They desire to emphasize once more the importance of clearing from such accounts at the earliest possible moment any charges proper to the annual Appropriation Accounts of the year.

They have had occasion to give directions for the closing of many specific suspense accounts resulting from the war and they trust that Departments will not fail to expedite the reduction of all such accounts.

New Form of Estimates and Accounts.

17. The Army Estimates for 1919–20 have been presented to Parliament in the new form recommended in the Seventh Report of the National Expenditure Committee, 1918, so as to show the cost of each branch of the service, each educational establishment, each hospital, and generally each main object for which expenditure is incurred, as would be done in a commercial business.

18. For reasons arising out of the aftermath of war conditions, it was not possible to apply in its entirety the new system in the first year of its introduction. The most important departures from what will constitute the new normal may be summarized as follows:—

(*a*) It was not found possible to separate the liabilities incurred in the previous year from those incurred in the year 1919–20.

(*b*) Cost Accounts were not fully applied in all cases from the beginning of the year but were opened at various dates throughout the year. Stations abroad were not included in the scheme during 1919–20.

(*c*) The stock accounts, which have hitherto been kept on a basis of quantities only, but will now be kept on a cash basis, are still in almost all cases incomplete.

19. A true comparison between the detailed Estimates and the expenditure recorded in the account for the year is not therefore possible.

We have taken evidence both from the Accounting Officer of the War Office and from the Treasury on the merits of the new system, and as to the advisability of extending its application to other Departments.

20. Up to the present it has only been applied (1) to the Army Estimates and Accounts as a whole, and (2) to a limited extent, and as an experiment, to the Victualling Manufacturing Accounts of the Navy.

21. The Accounting Officer has contended, and we think it must be conceded, that the new system has been of considerable value, even in its limited application, in bringing about improved financial control and thus effecting economies. The expense, however, of the new Costings Department is considerable, amounting in the current year to upwards of £400,000. The Accounting Officer, however, contemplates a reduction of about £100,000 a year under this head in next year's Estimates quite apart from any possible further economy to be obtained in some future year by an amalgamation of the three separate accounting staffs, at present employed for different purposes by the War Office.

22. The Treasury are not fully satisfied as to the merits of the new system. They would regard with some apprehension the probable large cost involved in its general extension to other Departments, especially before further experience has been gained of the results as applied to the Army.

23. It is generally admitted that it would be unnecessary to apply the Army scheme to all Departments of the State indiscriminately, though it might possibly be extended with advantage and without any considerable additional cost, to the Navy and Air Force, as well as to such Civil Departments as the Post Office, Office of Works, and Stationery Office. On the whole we are of opinion that it would be wise to await fuller experience of the results obtained from the operation of the scheme in the accounts of the Army.

My Lords note that the Committee agree with the view expressed on their behalf in evidence before the Committee.

Gifts of Stores.*

24. In connexion with the Navy, the Army, and the Air Accounts our attention has been called to very large gifts of public property to Allied Powers, Dominions, and Institutions.

25. Not to mention smaller items, we note (Navy Accounts p. 36) H.M.S. Encounter with certain guns and stores to the Australian Commonwealth: three mine-sweeping sloops, value about £73,000 each, together with their equipment, to the Australian Commonwealth: two submarine engines with certain spare parts to the Royal Australian Navy: two H. Class Submarines with torpedoes and stores to Canada: certain hulks to an Allied Government. It is clearly a serious matter that ships of the British Navy should be given away without the consent of Parliament.

26. Similarly in the Army Accounts (p. 137) we find that "surplus "non-marketable stores, the value of which when new was £2,000,000, "were handed over without charge to the Polish Government, with "Treasury sanction." Again stores, &c. were issued to the Russian Forces between 11 November 1918 and 31 March 1920 to a value roughly estimated at £17,828,000. These were surplus to requirements and mainly non-marketable. Their full nominal value as new was approximately 52 millions. There was also given in cash at the same time a sum of £6,697,000. No doubt, where this country is at war,

* See also P.A.C. 8, 1922, 13 at p. 641 and P.A.C. 1923. 85 at p. 670.

such gifts may be necessary in circumstances in which Parliamentary sanction cannot be awaited, but the gifts above quoted were made a long time after the signing of the Armistice.

27. Again in the Air Accounts (p. 13) we find that 50 surplus aeroplanes, with spare parts for 25 machines, were presented to the Greek Government. Also surplus aeroplanes, not exceeding 100 in any one case, were presented to the Dominion Governments and to India, with spares, equipment, motor transport, workshop lorries, and hangars, while certain charges for packing, &c., were defrayed.

28. In the case of small items, or where the gifts are merely a transfer to some other Department, it is sufficient that they be authorized by the Treasury and reported with the Appropriation Accounts to Parliament; but where the value exceeds £10,000 we consider that the concurrence of Parliament should be first obtained. Such concurrence in these gifts would surely add to their value in the eyes of the recipients.

The Committee recognize that the gifts of ships, &c., resulting from the War which are mentioned in the accounts of 1919–20 *were quite exceptional. My Lords do not think that in normal times there need be any apprehension that gifts of this nature will be anything but trivial. In any case it would be difficult to place any commercial value upon them, and it is hard to see how the concurrence of Parliament could properly be obtained by a Supply Vote which is really only relevant to the issue of cash from the Exchequer. Gifts require the assent of the Treasury and my Lords are disposed to think that this requirement, together with the present practice of noting a gift in the Appropriation Account for the information of Parliament, is a sufficient safeguard. They will consider whether it would be desirable to present to Parliament a Treasury Minute setting out the circumstances of any substantial gift that may be proposed in future.*

My Lords desire to make it clear that surplus stores of a commercial value held by the Disposals Committee could not be dispensed by way of gift. Payment would in all cases be required, and would have to be provided for in an Estimate submitted to Parliament, as in the recent instance of stores for the relief of famine in Russia (Miscellaneous War Services, Foreign Office, Supplementary Estimate, October 1921).

Net Subheads.

29. In paragraph 10 of our Third Report, 1920, we recorded a general preference for the gross as compared with the net basis of accounting—a view in which the Treasury expressed their entire concurrence.

30. This year our attention was drawn, particularly in connexion with the Ministry of Agriculture Vote, to certain instances of net subheads; and we think that, when the Estimates of Public Departments for 1922–23 are in course of preparation, it would be desirable that the Treasury should scrutinize them with a view to the elimination of such subheads, unless in any particular case special reasons are found to the contrary.

My Lords concur in the views of the Committee, and will take steps in connexion with Estimates for the year 1922–23 *to re-examine the cases where net subheads are at present in existence.*

Extra Remuneration.

32. As regards the limit of amount below which Extra Remuneration need not be noted in the Appropriation Accounts, we understand the matter is being considered by the Treasury. In view of the rise in the

level of prices and wages, we should not object in principle to a moderate raising of the £25 limit hitherto prevailing, say to £50.

My Lords concur in the suggestion of the Committee that no note need be made in Appropriation Accounts of extra remuneration below £50 in amount to any individual; and they have already given directions accordingly to all Departments (Treasury letter F. 3625, of 9 September 1921).

Note.—The Treasury direction covered also notes in Estimates.

Audit under Royal Charter.

Employment of Chartered or Incorporated Accountant.

33. In the cases of the Imperial Mineral Resources Bureau and the Imperial War Graves Commission, it appeared that it was laid down by Royal Charter that certain accounts, to which this country contributes part of the funds and the Dominions the remainder, should be audited by a Chartered Accountant or Incorporated Accountant (as contrasted with the Comptroller and Auditor General). We should be glad to learn that an opportunity is given to the Treasury to express their views (after consultation with the Comptroller and Auditor General) before such provisions are inserted in any Charter.

My Lords agreed to audit by other than officers of the Comptroller and Auditor General in the case of the two organisations mentioned owing to special circumstances; but they must ask that, in considering the terms of any Royal Charter, Departments will seek their concurrence before including special clauses regarding audit.

Inadequate Explanations of Variations between Estimates and Expenditure.

34. Accounting Officers vary considerably in the fullness of the explanations appended to their accounts of variations between Estimates and Expenditure. In some cases the explanations virtually give no additional information. We hope that this will be remedied in future. Where large variations are due to more than one cause, approximate figures of the deficit or surplus should be given under each heading.

My Lords desire that adequate explanation be given in Appropriation Accounts for the information of Parliament and the Committee, and they draw the attention of all Accounting Officers to the observations of the Committee.

Identification of Pensioners.

35. This very important matter, which affects the safeguarding of public money in connexion with the payment of pensions, has been before this Committee on several occasions during the last two or three years, and the Treasury undertook to have a thorough inquiry into the whole subject with a view to the issue of regulations which should be of general application to all the Departments of State concerned.* The results of these inquiries are embodied in Treasury Circular of 17 February last (see Appendix No. 21).

36. The most important of the steps therein laid down are:—

(1) The identification of pensioners. After full inquiry the Treasury have reluctantly come to the conclusion that it is not possible at present to introduce a system of identification by means of finger prints. They are of opinion, however, that a 1 per cent.

* Correspondence between the Treasury and pension-paying Departments will be found in Appendix No. 20 to P.A.C. Reports, 1920.

annual test of identity and continued eligibility, to be carried out by questionnaire and interview of pensioners, is not a sufficient safeguard for public funds. They have therefore laid down that, in all Departments authorizing the payment of 500 or more pensioners, there should be an annual review of 20 per cent. of pension cases; the test should be directed to securing identification of pensioners and assurance of continued eligibility for pensions; in dealing with widows particular attention should be directed to remarriage, where this operates to disqualify for continued pension.

(2) The greatest importance is attached to the prosecution of offenders in all cases of fraud and no "eleemosynary consideration" (which is held to be a matter for the consideration of the Court) should be allowed to stand in the way of immediate prosecution in all cases where in the opinion of the legal advisers evidence reasonably adequate to secure conviction is available; unless there is definite legal advice that the evidence is insufficient no prosecution should be waived without Treasury concurrence.

37. In evidence given before us (Q. 3381) it was explained that the Treasury would have the right to waive prosecution on grounds of mercy in very extreme cases. Subject to this qualification, we entirely concur in these views, the importance of which is emphasized in the case of the Ministry of Pensions where there are 3,500,000 individuals in receipt of different categories of pensions.

We are glad, therefore, to learn that the Ministry of Pensions have agreed to adopt the Treasury proposals (see Appendix No. 29) and we shall look to be informed next year of the action of those other Departments which have not yet replied to the Treasury Circular.

My Lords are glad to note the concurrence of the Committee in the steps taken to prevent fraud in the issue of pensions, and they anticipate being able to report further to the Committee next year.†

Treasury Control.

38. Our attention has been called to certain changes in the money limits (see Appendix No. 22) within which the Admiralty, War Office, and Air Ministry were allowed to write off losses without Treasury authority; also to increases in the amounts within which power is delegated to them by the Treasury to approve expenditure of a kind normally requiring Treasury sanction. The limits, however, within which Treasury sanction is required for new works services have not been increased.

The changes proposed are due to the devaluation of money, and in the special circumstances we raise no objection, though the results should be watched.

We are of opinion that the pre-war system of Treasury control over all Departments of State should now be firmly re-established.

My Lords note the views of the Committee.

Trading Accounts.

39. Reference was made in Paragraphs 1 to 6 of the Third Report of the Public Accounts Committee of last year to the important question of Trading Accounts. A volume showing Trading Accounts of the majority of War Schemes, for the period to 31 March 1919, was presented last autumn (Cmd. 1062), but this was incomplete and

† The P.A.C. of 1922 remarked in para. 48 of their Third Report that the test identification of pensioners "is now in general operation as regards the Ministry of Pensions and other Departments."

was not reported upon by the Comptroller and Auditor General. Now for the first time a volume has been published containing all the Trading Accounts and Balance Sheets. With these is the Report of the Comptroller and Auditor General thereon. These accounts relate (1) to services undertaken during the War in connexion with war materials and food supplies and (2) to normal services of Government Departments. They cover various periods up to 31 March 1920, in some cases from the beginning of the War.

Those relating to war services fall into four classes:—

1. Those concerned with the supply and control of general food stuffs and raw materials, e.g., timber supplies, meat and general food supplies, including wheat and sugar, and raw materials for war purposes.

2. Those entered into mainly with the object of limiting supplies available for the enemy from neutral countries, notably fish supplies from Norway, Holland, and Iceland, and vegetables from Holland.

3. Those entered upon for the increased production of food supplies within the United Kingdom.

4. Those concerned with the maintenance of shipping and freight facilities.

41. As regards normal services these do not fall readily into a summarized classification, but the most important are those controlled by the Ministry of Agriculture and Fisheries for the development of agriculture and fisheries, the farm settlements, and the Tully National Stud.

42. The Treasury have done their best to secure uniformity in the form of accounts and have issued instructions on the subject in circulars dated 26 February and 20 June 1921 (see Appendix No. 32).

As a result, the accounts have on the whole been presented in fairly comparable form, but we have noticed in several instances differences in regard to the treatment of incidental expenses, charges for insurance, interest on Exchequer Advances, and other matters.

43. Some latitude must, of course, be allowed in the first year, but we shall expect in future the Trading Accounts in each Department to be drawn up on a uniform basis. Each Department should render for each of its trading activities a Trading and Profit and Loss Account, a Balance Sheet, and, in the case of manufactures, a Manufacturing Account. These should as far as possible be based on comparable items. We regard the institution and business-like compilation of these Trading Accounts as of the greatest importance in affording an effective instrument to bring about economies.

As a small illustration we may refer to the comparative cost of two power stations both under the Postmaster-General, which is revealed in the accounts now for the first time published and brought under scrutiny. In one case the unit cost works out at 2·92*d*., in the other (a very much smaller concern) at 6·52*d*. The latter station has now been ordered to be closed down.

44. The Trading Accounts in many cases are not signed by the Accounting Officers, and though they have been reported upon by the Comptroller and Auditor General, there is no statutory enactment imposing upon him this duty and they do not bear his certificate. In the new Bill amending the provisions of the Exchequer and Audit Departments Act (based on the recommendations of the Treasury Committee, which have recently been considered by this Committee),

provision is made for the audit by the Comptroller and Auditor General of all trading and commercial accounts and for his certifying and reporting thereon to the House of Commons.

My Lords note the wishes of the Committee. They desire that each Department shall render for each of its trading activities a Trading Account, a Profit and Loss Account, and a Balance Sheet, and in the case of manufacturing Departments, a Manufacturing Account, and that the items in these accounts should follow the directions already laid down in successive Treasury Circulars. The accounts should be signed by Accounting Officers, and rendered to the Comptroller and Auditor General and to this Board at the dates laid down by the Exchequer and Audit Departments Act, 1921.

CIVIL SERVICES AND REVENUE DEPARTMENTS.

SUPREME COURT OF JUDICATURE.

Award of Special Gratuity.

51. Our attention was called to the grant of a gratuity which came very near to infringing the rule that gratuities should not be used to increase the statutory pension.

The rule that special services should be dealt with at the time, and not left over for consideration in connexion with the award of a pension, should in future be strictly adhered to, and where a gratuity is paid at the time of retirement it should be first expressly voted by Parliament.

My Lords fully agree with the view of the Committee that it is undesirable to award gratuities for special service, after some lapse of time from the date of the service, and that if in exceptional circumstances a gratuity is given on retirement in addition to the statutory superannuation payments, that gratuity should not be paid until an estimate making clear its extra-statutory nature has been presented to Parliament and passed.

SECRET SERVICE.

Treatment of Receipts.

53. In the year under review extra receipts amounting to £1,592 3*s*. 10*d*. were realized and paid to the Exchequer under this head.

We consider that, in the same way as a certificate is given by a responsible Minister of the Crown with regard to expenditure from Secret Service Funds, a similar certificate should be given in the case of receipts. We are glad to know that the money received in this case was paid to the Exchequer and not used to increase the amount available for gross expenditure on Secret Service.

My Lords are taking the necessary steps in the matter.

GOVERNMENT HOSPITALITY FUND.*

54. After discussion between officers of the Exchequer and Audit Department and the Treasury, regulations with regard to this Fund (see Appendix No. 7) have been drawn up by the latter which should place the administration of the Fund on a sound basis. From the nature of the case, this expenditure needs to be carefully watched, and we are glad to learn that the Comptroller and Auditor General will, if necessary, draw the attention of Parliament in future years to any points arising thereon.

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* The Fund was instituted in 1908, the object being to ask Parliament to set aside a sum of money annually for the purpose of organizing official hospitality on a more regular basis, with a view to the promotion of international goodwill.

BOARD OF EDUCATION.

Pensions to Teachers.

57. In his examination of the awards of Teachers' Pensions granted under the School Teachers (Superannuation) Act of 1918 which is administered by the Board of Education, the Comptroller and Auditor General raised various questions as to the method of applying the Act to particular cases or classes of cases, and called attention to certain matters where the procedure differed from the rules governing the award of pension to Civil Servants.

We took evidence and the Treasury have since furnished a very full memorandum on the subject (Appendix No. 35), in which they (1) state the considerations that led them to obtain Parliamentary authority for placing the responsibility for the awards of pensions in the hands of the Board of Education, and (2) deal with the specific points raised by the Comptroller and Auditor General.

58. As regards (1) the Treasury for reasons stated would deprecate a return to the system in force before the Act of 1918 under which the award of Teachers' Pensions was made by them. That being so, they consider that the questions remaining are the degree of discretion left to the Board of Education and the manner in which that discretion is in practice exercised. On the whole they are satisfied that the scope of any discretion left to the Board of Education is from a financial point of view relatively unimportant, the main points reserved for such discretion being suspension of teachers and reduction of pensions for cases of misconduct, and determination of what is "full time" service and "recognized" service.

59. The Treasury rightly lay down that it would be improper for the Board of Education to act without Treasury concurrence in any case involving the expenditure of public money which may be said to depend on a strained interpretation of the Statute or of any rule. Further, even as regards action within the terms of the Statute, or of the rules thereunder, they hold that it is the duty of the Board of Education in any case of financial importance, or involving new principles, not to exercise the discretion conferred on them by the Statute without consulting the Treasury.

60. We are glad to learn that an assurance has been given by the Board that it is their intention to act in accordance with these principles, and will also in general consult the Treasury where the Board think assistance can be given or Treasury concurrence is desirable to a decision to which objection might reasonably be taken.

61. As regard (2) the Treasury have carefully inquired into the cases referred to by the Comptroller and Auditor General. They consider that some of them call for an alteration in practice by the Board, and in others that amending legislation is necessary. Proposals to this end are under consideration with a view to their submission to Parliament at an early opportunity. We consider that in most of the cases to which attention was called the further explanations given by the Board of Education are satisfactory, but that in some instances their practice has been somewhat too lenient. We shall expect to have the changes proposed reported to us next year.*

My Lords will be glad to be consulted by the Board in the cases referred to by the Committee. The Board will, no doubt, be prepared to report further to the Committee in regard to the changes proposed, as may be required.

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* See P.A.C. 3. 1922. 38 at p. 647.

MINISTRY OF PENSIONS.

65. In the course of our evidence it came to notice that there were considerable delays within the Ministry in dealing with correspondence and also in bringing important letters and documents to the notice of the Accounting Officer. We trust that measures will be taken to remedy these defects.

My Lords view with concern the system apparently obtaining in the Ministry under which important correspondence, etc., of a financial bearing fails to reach the Accounting Officer of the Ministry at an early stage of discussion. They regard it as essential that financial questions should be submitted at an early stage for the information and criticism of the financial officers of the Ministry. I am to ask for an assurance that this is now done.

MINISTRY OF FOOD.

Subsistence allowance to British Food Mission in the United States.

69. A British Food Mission numbering ten individuals and mostly consisting of unpaid volunteers, started for America in July and August, 1917, and it was not until after some of the Mission had sailed that the Treasury were communicated with as to the scale of allowance to be granted for subsistence. They sanctioned what they regarded as the normal allowance of two guineas a day.

70. It appears, however, that the members of the Mission were under the impression that their actual hotel expenses, etc., would be allowed, with the result that they incurred an average daily expenditure per head of about £3 10*s*. 8*d*., being £1 8*s*. 3*d*. in excess of the rate authorized by the Treasury, and amounting in all to about £8,000. On being requested to refund the excess they declined. The points which seem to be open to criticism are:—

1. The delay in seeking Treasury sanction for the scale of allowance.
2. Continuing to issue money to the members of the Mission far in excess of the authorized rate.

We are glad to learn that actual expenses without a definite limit are only rarely granted, and that the fixing of a daily rate of subsistence allowance is the rule and will be enforced wherever possible.

71. Having regard to the special circumstances of the present case, and the high cost of living in America, we are of opinion that the present charges may be admitted, except in the case of the salaried officer who spent at the rate of four guineas a day. We consider that he should refund the amount drawn in excess of three guineas a day.

We wish it, however, to be understood that pecuniary responsibility rests upon the Accounting Officer for issues of public money in contravention of or in excess of amounts sanctioned by the Treasury where such authority is required, and we are of opinion that the Treasury should take steps to notify and enforce such responsibility.

To the Secretary, Board of Trade.

My Lords have already expressed to the Ministry of Food their opinion regarding the payment of allowances in excess of those authorized, and they fully concur in the view expressed by the Committee in the second sub-paragraph of paragraph 71 *of the Report.*

Having in view, however, the opinion of the Committee expressed in the first sub-paragraph of paragraph 71, *my Lords now grant their covering authority for the allowances paid to members of the British Food Mission, except in the case of the salaried officer referred to: in*

*whose case an allowance at the rate of three guineas a day for the period of duty in America will be allowed. The excess above that amount must be recovered from the Accounting Officer at the time, and paid over to the Exchequer as an extra receipt, and I am to request that you will take immediate steps accordingly.**

Civil Contingencies Fund Account.

74. Under the Act of 1919, power was taken to increase the capital of this Fund to £120,000,000 to enable advances to be made to the various Government trading accounts. In point of fact that power was only used to increase the fund to £64,000,000 and of that £34,000,000 was surrendered to the Exchequer by 31 March 1920. This fund requires careful watching and it is satisfactory to learn that the advances made to it are now being considerably reduced.

Steps have been taken in the Finance Act, 1921, to reduce the Fund to £1,500,000 and to surrender the special powers of making advances for trading purposes given by the Act of 1919.

Navy Appropriation Account.

Date of closing Admiralty Books.

75. The Comptroller and Auditor General drew attention to the lateness of the date in closing the Admiralty books in recent years, resulting in great inconvenience, and delay in carrying out the audit and in the presentation of the account with his report to Parliament. He recommended that in future the Admiralty books should be closed on 30 September in each year. The Admiralty admitted the delay but urged in excuse the special circumstances in connexion with the War and also the lateness of the completion of the Ordnance Factory accounts which form the basis of considerable charges to Navy Votes.

76. We understand that the War Office are arranging to accelerate in future the preparation of the Ordnance Factory accounts, and we are of opinion that while the Admiralty may be allowed to make adjustments in respect of the year 1920–21 up to 31 October, they should in future close their books on or before 30 September in each year.

To the Secretary, Admiralty.

My Lords concur in the view of the Committee that the Admiralty books of account should in future be closed on 30 September in each year, and they are asking the Army Council to take steps to ensure that charges for Ordnance Factory production shall be made at a date sufficiently early to permit the timely completion of Admiralty accounts.

Air Ministry Appropriation Account.

Postponement of Liabilities.

86. We inquired into the question whether the Air Ministry, owing to inadequacy of provision to meet the claims of the Ministry of Munitions for stores to be delivered in 1919–20, deliberately made arrangements to postpone payment of liabilities duly matured.

The evidence on the matter was somewhat conflicting and in the circumstances we are disposed to give the Ministry the benefit of the doubt. We wish, however, to reaffirm the general principle that

* Later it was decided not to enforce the pecuniary charge against either the member of the Mission or the Accounting Officer. The P.A.C. of 1922 concurred, Third Report, para. 49.

deliberate postponement of claims matured is indefensible and must not be resorted to even if funds are not available. The proper course in such cases is to seek the necessary provision by means of a Supplementary Estimate.

My Lords concur in the Committee's general view in regard to postponement of liabilities.

Excess Expenditure on Scheme for Civil Aviation.

88. The Comptroller and Auditor General drew attention to expenditure connected with the Cairo to Cape Town aerial route. It appears that an understanding was reached with the Treasury that within moderate limits funds were available for civil aviation schemes in 1919–20. The sum of £3,000 was accordingly allotted by the Air Ministry to the Air Officer Commanding the Middle East for the inception of the Cairo-Cape Town route, while in June 1919 they authorized for this purpose a total expenditure of £15,000, excluding pay of the Royal Air Force personnel.

89. In July 1920 it was ascertained that the expenditure (which was administered by Army Paymasters and by the Rhodesian Government) would be approximately £50,000. At this stage the matter was reported for covering sanction to the Treasury, who considered that the scheme should not have been prosecuted without their prior approval. They also expressed the view that steps should have been taken to obtain some contribution from the various African Governments.

90. We took evidence on the subject from the Accounting Officer who, in his reply to the Treasury and in evidence before us, argued that the further provision in Air Votes, 1919–20, of a lump sum of £350,000 for Civil Aviation removed the necessity for Treasury control as to the method of expenditure. We are glad to learn from the Treasury letter, dated 8 July 1921 (Appendix No. 40), that they are unable to accept that contention. They emphasize the well-known rule that, although provision is made in Estimates for lump sums to be expended on services of one general type, the Department is not thereby relieved of the necessity for obtaining Treasury authority for specific expenditure on works in excess of the limits within which power has been delegated to them by the Treasury.

91. The Air Council themselves appear to have recognized this principle inasmuch as they stated in a letter of 4 August 1919 to the Treasury that " The Council are hardly yet in position to allocate " between the various subheads of the Air Votes specified sums for the " purposes of Civil Aviation and they consider it necessary to ask that " they should be granted a maximum sum which may be distributed at " their discretion under the appropriate Votes *and will be subject to the* " *existing rules for control by their Lordships.*"

The letter then set out the objects for which this provision would be required, but did not mention surveys or preparation of aerial routes, although it now appears that the Council had already authorized an expenditure of £15,000 upon this particular route.

92. It is quite clear that the preparation of the Cape to Cairo aerial route must be regarded as a single service of an entirely novel character, and that before the Air Council decided to allocate £15,000 for the service, Treasury sanction should have been obtained and the service shown in Air Estimates, as a Part I. item requiring Parliamentary approval

93. The Treasury go on to state that they view with grave concern this clear evidence of the failure of the Air Council to carry out adequately the responsibility placed upon them to control expenditure on Air Services, and they request that at an early date they shall receive an assurance that adequate steps will be taken to secure such control in the future. We thoroughly endorse these views of the Treasury and expect to hear next year the results achieved.

To the Secretary, Air Ministry.

The Council will note that the Committee concur fully in the views which their Lordships have expressed as regards the expenditure on the preparation of the Cape to Cairo aerial route.

My Lords regret that their views are not substantially modified by the further explanation contained in your letter of 22 August last.

They note that the expenditure involved was by no means confined to works services, but it would seem certain, though no information is given on the point, that if the works expenditure had been aggregated, this would have necessitated the opening of a Part I. item requiring Treasury and Parliamentary sanction.

Further, while my Lords agree that their sanction is not normally required for expenditure on transport of personnel, purchase of petrol, &c., they remain of opinion that this particular Service was of such a novel and exceptional character that they should have been furnished beforehand with an estimate of the total expenditure involved and their sanction obtained for the scheme as a whole and for any excess over the original estimate.

Their Lordships also remain of opinion that sufficient precautions were not taken to control local expenditure, and they observe that no replies are furnished to their questions in this connexion.

My Lords are, however, glad to note that the Air Council readily give the assurance for which their Lordships have asked that adequate steps have been taken to secure proper control over expenditure by local officers in future, and now that a separate Vote exists for Civil Aviation they trust that they may assume that in future any similar new scheme will be brought to their notice when the annual estimates are submitted.

ARMY ACCOUNT.

Expenditure in Excess of Vote.

99. We have already reported that we saw no objection to an Excess Vote being presented and this has been done and the Vote passed, but one or two points arise in that connexion which call for comment.

100. The Accounting Officer has explained that as late as the end of March 1920 he was under the impression that the expenditure of the year would have been within the total voted. In proof thereof £10,000,000 less than the full grant was drawn from the Exchequer. As a matter of fact there was not sufficient cash available to surrender the unexpended balance of Vote of Credit advances on the account for 1918–19, amounting to over 23 millions, payment of which was accordingly postponed with the consent of the Treasury until April 1920, when the Vote on Account for 1920–21 had become available. This shortage of cash, however, was not brought to the notice of the Accounting Officer who, if this had been done, would have realized that the position required investigation. The Treasury explained that their consent to the postponement was given in the belief that it was because of the large number of outstanding balances held by sub-accountants that the cash was not available to meet the payments due to the

Exchequer. Allowance must be made for the fact that the year 1919–20 was one of special difficulty: it was the first year in which provision was made for all services (both war and normal) by detailed Estimates, instead of by means of Votes of Credit, and there were still large outstanding liabilities in regard to which it was difficult to foresee within what period they would be brought to account.

101. We are of opinion, however, that there were certain mistakes within the Department which should have been avoided, and we are glad to learn from the Accounting Officer that instructions have been issued under which, in future, the departmental Exchequer account of cash receipts and issues is to be reconciled periodically with the departmental returns of actual expenditure. This should obviate a recurrence of similar errors, and admit of steps being taken to provide, if necessary, by means of a Supplementary Estimate instead of *ex post facto* by an Excess Vote.

As regards expenditure in excess of amounts voted, my Lords are glad to learn that steps have been taken to secure that, in the future, full information of the progress of cash payments will be available and that as a consequence excesses over voted sums may be expected to be avoided.

Sanction for Excesses on Heads of Expenditure.

102. As under the new form of Army Estimates there is only one Vote for the Army, an important question has arisen as to the sanction required in the case of excesses or surpluses on the various heads under which the expenditure of the Army is now grouped. The Treasury have laid down that their sanction must be obtained for any excess on one head being met from a surplus under other heads.

103. We are of opinion that this sanction should be sought, where possible, before any such excess is incurred, and that if an important departure from the original programme of expenditure is involved, the matter should be brought to the notice of Parliament by presenting either a statement showing a revised allocation of expenditure or, if necessary, a Supplementary Estimate in the form of a Token Vote. It should be the duty of the Comptroller and Auditor General to report to the House of Commons if such action is not taken at the earliest opportunity.

My Lords have already referred to the need for their sanction being obtained for the transfer of funds from one head to another of the Army Vote.

Certification of the Account.

104. The Comptroller and Auditor General reported that, in view of the provisional and incomplete application of the new system of accounts to the year 1919–20 (already referred to above), and also in view of the fact that they are not merely accounts of cash receipts and expenditure but embody other elements such as rental values, unpaid services rendered, &c., it was doubtful whether they could be regarded as Appropriation Accounts in the sense contemplated in Section 24 of the Exchequer and Audit Departments Act, 1866. That being so, he was not clear whether the statutory obligations as regards Appropriation Accounts imposed by Sections 24—32 of that Act applied in strict law to this case. He therefore in the circumstances certified only the cash transactions, embodied in the General Abstract and summarized in the Exchequer Statement.*

105. The matter has, since, been the subject of inquiry by Mr. Acland's Committee† on Alterations to the Exchequer and Audit

* See also P.A.C. 1923. 70 at p. 668. † See footnote on p. 574.

Departments Act, and a clause has been inserted in the Bill recently introduced by the Government which will give statutory power to apply an audit to the accounts of income and expenditure under the new system.

Contracts without Competitive Tenders.

106. The present rules for the authorization of contracts were approved in paragraph 20 of the Treasury Minute on the Report of the Public Accounts Committee, 1910. The provisions are as follows:—

(1) New Orders.—The approval in writing of the Financial Secretary is required if the contract is over £200 in value, and that of the Secretary of State if the value is over £10,000.

(2) Extensions (Works).—The approval of the Financial Secretary is required if the extension is over £200 in excess of the original contract. The written authority of the Secretary of State is necessary if the extension amounts to more than £5,000, or is priced at a higher rate, or if competition was dispensed with in placing the original contract.

107. The Treasury have laid before us (see Appendix No. 23) correspondence in which the War Office and the Air Ministry suggest that these limits are now too low and should be increased. The Treasury view is that it is reasonable to increase them 100 per cent. In that event the sums of £400, £20,000, and £10,000, would be substituted for £200, £10,000, and £5,000 respectively, in the existing rules.

108. We see no objection to the adoption of that proposal which we note applies both to the War Office and the Air Ministry.

The Council will note that the Committee concur in the revised limits to be applied in regard to approval of contracts made without competitive tender. The figure of 400l. in paragraph 107 should be 500l. as authorized in paragraph 8 of Treasury letter of 11 February 1921.

CENTRAL CONTROL BOARD (LIQUOR TRAFFIC).

Form of Accounts.

113. The Public Accounts Committee of 1918 recommended that as three years had passed since the establishment of the Liquor Board a Balance Sheet, such as would be presented by any public company, should be prepared and published without delay. As a result accounts were published for the first time towards the end of 1918 (Cmd. 9187) showing the assets and liabilities as at 31 March 1918, and a profit and loss account from the commencement to 31 March 1918.

114. In accordance with commercial practice this latter statement started with the net balance from trading accounts, after allowing *inter alia* for Rent, Repairs and Alterations, Rates, Managerial and Architectural Staff, and Depreciation of Plant. The trading accounts were certified by firms of chartered accountants. In the volume of Trading Accounts now under review the results of the Board's trading from the beginning to 31 March 1920 are given on the same basis.

My Lords, while noting the comments of the Committee regarding the accounts of the Central Control Board (Liquor Traffic), desire that the accounts of future years may be rendered to show more clearly expenditure, &c., under the comparable items and in the form prescribed for trading accounts generally.

THIRD REPORT, 1922. H.C. 167.

Treasury Minute, 18 *November* 1922.

EXCHEQUER AND AUDIT DEPARTMENTS ACT, 1921.

1. The accounts of the year 1920–21 are the first which have been submitted to the Public Accounts Committee since the passing of the Exchequer and Audit Departments Act, 1921, which received the Royal Assent on 19 August, 1921.

The principal feature of that Act was that it relieved the Comptroller and Auditor General of a statutory obligation to conduct a detailed and complete audit of all accounts not included in Schedule B of the Act of 1866, and conferred upon him a certain discretion as to the extent of his examination.

In recent years, and particularly during the war, the practice in the examination of the public accounts had tended to diverge in certain respects from the literal and inelastic provisions of the Act of 1866, and one effect of the Act of 1921 has been to give statutory authority to the practice which was in force at the time.

We are informed by the Comptroller and Auditor General that no departure from the practice of recent years has, in fact, been made in his examination of the accounts for 1920–21, and that he contemplates no relaxation in the scope of his audit. A certain relief will be given to his Department by the transfer of Irish Services, and he will thereby be enabled to make provision for a more extended examination in other directions, where it seems to him to be required.

4. The Committee appointed to consider the provisions of the Exchequer and Audit Departments Act, 1866, (whose recommendations led to the enactment of the Exchequer and Audit Departments Act, 1921.,) suggested in paragraph 37 of their Report (Cmd. 1383) a new form for the certificate to be given by the Comptroller and Auditor General on his examination of accounts, viz.: "I have examined the "above account in accordance with the provisions of the Exchequer "and Audit Departments Act, 1921. I have obtained all the informa- "tion and explanations that I have required and I certify, as the "result of my audit, that in my opinion, the above account is correct."

This form was devised more particularly to meet the difficulty of giving a certificate of correctness without qualification in cases where a test audit is applied. It has been adopted as a general rule by the Comptroller and Auditor General, but in a limited class of cases, where no question of a test audit can arise, he has continued to give an unqualified certificate, "this account has been examined under my "directions and is correct."

VIREMENT.

7. In continuation of paragraphs 1 to 8 of our Third Report of 1921, we have to point out that various important cases of virement are to be found in the 1920–21 Accounts.

* * * * * *

9. We recognize that these divergencies between grant and expenditure are, to a large extent, attributable to the aftermath of war, and we are glad to learn that the Treasury anticipate a progressive return

to normal conditions of accuracy of estimate and a consequent diminution of the need for virement.

10. It will be remembered that under the recognized practice the cost of a service not expressly provided for by Parliament cannot be charged against a Vote, and therefore cannot be met by virement, unless that service is comprised within the ambit of the Vote. In other words, the service must be covered by the language of what is known as Part I of the Estimate, which is embodied in the resolution passed by the Committee of Supply and is set out in the annual Appropriation Act. In the case of the Vote for Miscellaneous War Services * * * * the purpose of the grant was expressed in terms so general as to admit of the application of the money granted to any purpose which might be considered to be a miscellaneous war service. We feel strongly that Parliament should watch with the greatest jealousy Votes which are submitted to it in such indefinite terms.

11. In Treasury Minute of 24 November 1921 it was stated that "My Lords in the exercise of the power of virement will bear in "mind the views expressed by the Committee, with which they are "largely in agreement." We have felt some doubt as to the extent of the reservation implied by the last words of this sentence, but we have been assured in evidence that the reservation is entirely confined to the difficulty of attempting too precise a definition in general terms, and does not imply any divergence in view between the Treasury and the Committee with regard to the general principles involved. We recognize that, to some extent, an attempt to lay down in precise terms the circumstances in which virement may or may not be allowed might defeat that economy in public expenditure which we have in view, and we are content to accept the assurances which have been given to us on behalf of their Lordships. We are glad to learn that the Treasury have issued instructions insisting on a strict compliance with the rule that anticipated excesses on subheads should be reported as soon as possible to the Treasury without waiting for the close of the financial year.

12. In connexion with this subject, a special point deserves mention in relation to the Army Account. It will be remembered that until the new form of Army Estimates was introduced, virement between Vote and Vote, subject to Treasury sanction and the final confirmation of Parliament, was a normal feature of Army Accounts, as in the case of the Navy and Air Services. In paragraphs 1 and 102 of our Third Report of 1921 we pointed out that, as there is now only one cash Vote for the Army, the question of virement between Army Votes no longer arises.* In consequence of this, the annual Appropriation Act now provides for final confirmation by Parliament of virement of Navy and Air Services' funds only. The Treasury, however, have laid down that their sanction must be obtained for meeting any excess on one of the Heads of Army expenditure from a surplus under other Heads. We are informed by the Accounting Officer that this position is fully recognized and acted on by the Army Council.

My Lords are glad to note that the Committee accepts the assurances given to it on this matter.

They entirely agree with the Committee that wherever practicable (and in normal circumstances it should always be practicable) the purpose of a Parliamentary grant should be set forth in Part I of the Vote in definite terms.

* See footnote on page 620.

GIFTS OF PUBLIC PROPERTY.

13. The accounts of the Navy and Air Services record further instances of gifts of public property, made under authorities other than that of Parliament, before we drew attention to this question last year.

14. In their Minute of 24 November 1921 the Treasury express some hesitation in regard to our recommendation that in cases where the value of such property exceeds £10,000 the concurrence of Parliament should first be obtained.

The Treasury suggest that in normal times there need be no apprehension that gifts of this kind will be anything but trivial. As regards such trivial gifts we should, as indicated last year, be satisfied with an arrangement under which the items were authorized by the Treasury and recorded in the Appropriation Accounts; but we cannot feel satisfied with a position which would allow of substantial gifts of public property being made without the prior knowledge of Parliament.

15. On inquiry we find that the greatest constitutional authorities have laid it down that gifts of national property cannot be made without the approval of Parliament. We are therefore doubtful whether, even in suggesting a limit of £10,000 last year, we did not go further than the Constitution allows. There need be no difficulty as to the procedure by which Parliament is informed of the proposal beforehand and its concurrence obtained.

We shall be glad to learn that the Treasury, on further consideration, accept our views in this matter.*

IRREGULAR USE OF DEPARTMENTAL BALANCES.

16. Various cases have come under notice in which general balances on Parliamentary grants or Departmental funds have been used temporarily to finance services which had not, at the time, been expressly provided for by Parliament, or, in the case of repayment services, for which it was not definitely established that the principal Department had accepted liability.

Thus (*a*), the cash required to finance the manufacture of locomotives by the Ordnance Factory at Woolwich (to which separate reference is made in paragraph 76) was provided out of general balances available on the Army Account. In fact, by this procedure, cash voted by Parliament for the requirements of the Army was temporarily diverted to an experiment in commercial manufacture.

(*b*) Again, in the year under review it would appear that the construction of houses by the Office of Works on behalf of local authorities was financed in the first place out of the general balances available on the Votes administered by that Department, and it was not until well on in the year that regular provision was made by Parliament for this service. A further illustration, again involving the Office of Works, is afforded by the disaster at Louth in 1920.

(*c*) Again, in the case of the Office of Woods and Forests, we find that considerable expenditure in connexion with afforestation services was incurred by the Commissioners out of the Land Revenues of the Crown, in the anticipation that it would be repaid by the Forestry Commission. No undertaking had, however, been obtained from the Forestry Commission that the liability for this expenditure would be accepted, and it was not a proper charge against the Land Revenues.

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* See P.A.C. 1923. 85, at page 670.

17. The general question involved has been the subject of discussion between the Office of Works and the Treasury, and the latter have recorded certain principles which should govern the procedure in such cases. As we fully endorse these principles, and think they should be universally applied, it is desirable to restate them:—

(1) Money which is appropriated by Parliament to a specific Vote or Fund must not be diverted even temporarily to services outside the ambit of that Vote or Fund, since such a procedure cuts at the root of all control of expenditure through Parliamentary appropriation.

(2) When expenditure becomes necessary on a service not covered by a Parliamentary Vote, immediate steps should be taken to obtain Parliamentary authority.

(3) If it is absolutely impossible to obtain Parliamentary authority before expenditure is incurred for urgent purposes, the authority of the Treasury should be obtained for an advance from the Civil Contingencies Fund, pending the presentation of an Estimate, which should follow forthwith.

(4) The recovery of any moneys expended on repayment services should be effected as rapidly as possible.

(5) Allowance should be made for the services and expenses of the Department (i.e., the charge made in respect of the works should be sufficient to cover these).

The last two rules apply to the performance of repayment services. The possibility of obtaining imprests from the party for whom such services are performed should be carefully considered in these cases, especially if the service involves any considerable cost.

My Lords desire to call the attention of all Accounting Officers to the observations of the Committee, with which they are in entire agreement.

My Lords do not read the Committee's remarks as precluding the meeting from balances as a purely temporary measure of minor items in suspense, provided that there is real doubt whether such a suspense item may not, in fact, be chargeable to the Vote or Fund, and provided that is is cleared without delay.

Net Subheads and Suspense Accounts.

18. We are glad to learn that the Treasury, acting on our recommendation, have eliminated a number of net subheads from the Estimates, and they have once more called the attention of Accounting Officers to the importance of clearing suspense accounts. We suggest that the Treasury should require all Departments to furnish to their Lordships and to the Comptroller and Auditor General annual lists showing the amounts outstanding in suspense accounts at a given date, say, 31 March, in order that this matter may be kept under special review.

My Lords have caused a circular to be sent to all Accounting Officers on this matter.

War Bonus.

19. The accounts for the year under review are disturbed by the method adopted in dealing with the war bonus of civil servants. In the original Estimates provision for war bonus, at the rates in force at the time of their preparation, was made as a separate item under the Vote for each Department concerned. In the course of the financial year these rates were increased and a separate Supplementary Estimate amounting

to £9,500,000 (subsequently increased by Votes for £2,350,000 and £800,000 respectively) was presented to Parliament, to provide for the additional war bonus to the extent to which it could not be met out of savings on the Votes for the several Departments concerned. The total payments made during the year in respect of war bonus have thus been met partly out of the provision in the original Votes for Departments, partly by savings effected on other services provided for in those Votes, and partly out of Supplementary Votes for war bonus. The procedure adopted was explained on the face of the Supplementary Estimates for war bonus, and it is urged by the Treasury that by insisting that Departments should meet additional war bonus in the first place out of general savings on Departmental Votes, they effected a very substantial economy of public funds. We accept this statement, although the procedure adopted involved a rather doubtful application of the principle of virement, and the result is certainly that the accounts do not show what the total paid as war bonus during the year has been.

Excess on a Grant in Aid Subhead.

21. As stated in our First Report, an excess of £1,200 has been incurred on Subhead G of the Vote for Prisons, England and Wales (Cl. III, Vote 8), under which £5,000 was provided as a Grant in Aid to the Association for the Aid of Discharged Prisoners. The excess arose through a mistake on the part of the Accounting Officer, who had overlooked the recognized rule, that there is no power to apply savings on other subheads of a Vote either to increase an existing Grant in Aid subhead, or to create a new Grant in Aid subhead; such a course would exempt from the condition of surrender money which had been voted by Parliament subject to that condition. The excess was not brought to the notice of the Treasury until November 1921, when it was too late to deal with the matter by a Supplementary Estimate.

We have reported that we see no objection to this sum being provided by an Excess Vote, which has been taken. We, however, regard it as highly unsatisfactory that such a mistake should have occurred in the first instance, and that the irregularity should not have come to light until long after the close of the financial year. We are informed that the Treasury, anticipating our wishes in this matter, have issued a circular drawing the attention of Accounting Officers to the recognized rule governing Grants in Aid in this respect.

Utilization of Savings on a Grant in Aid Subhead to meet excesses on an ordinary Subhead.

22. In July 1920 Supplementary Estimates were voted by Parliament, amounting in all to £3,000,000, for the purpose of purchasing pickled herrings cured in Great Britain during the summer and autumn season. Of this sum £1,200,000 was provided under the Vote for the Ministry of Agriculture and Fisheries, and £1,800,000 under the Vote for the Fishery Board for Scotland. Later it was found that the provision made for the English part of the scheme was insufficient, although owing to savings on the provision in respect of Scotland the total expenditure by the two Departments would not exceed the total of £3,000,000. In these circumstances the Treasury decided that it was unnecessary to obtain a re-allocation of the total provision between England and Scotland by the presentation of a Supplementary Estimate for the additional expenditure in England, provided sufficient savings

were available on other subheads of the Vote for the Ministry of Agriculture and Fisheries. The principal saving on that Vote was one (which ultimately proved to be £658,000) on the Grant in Aid to the Small Holdings Account, Subhead L of the Vote; and with Treasury sanction the savings on this Grant were utilized to meet the excess expenditure on the English portion of the herring scheme.

23. As we have pointed out in paragraph 21, it is not legitimate to meet an excess on a Grant in Aid subhead out of savings on other subheads, for the reason that this course exempts from the condition of surrender moneys which have been voted subject to that condition. In the converse case, which we are now considering, this objection does not apply, and in the exceptional circumstances we raise no objection to the course adopted by the Treasury.

Savings on a Grant in Aid subhead, and indeed on many others, should only be used to meet excesses on other subheads when it is beyond doubt that the saving is a real and permanent one, and does not represent a postponement of obligations to a future year. In this particular case the above condition was fulfilled because the savings arose from a change of policy and an over-estimate of the needs.

My Lords note the views of the Committee, to which they call the attention of Accounting Officers.

Special Advances to Contractors at the end of the Financial Year.

24. Towards the close of the financial year 1920–21 the Air Ministry, acting, as they held, in pursuance of the powers which have been admitted by the Public Accounts Committee for dealing with what have come to be technically known as " special cases," made advances amounting approximately to £270,000 to contractors which were not then claimable under the specific conditions of their contracts. This is done to avoid surrender by the Department of money in one year and the necessity of voting it in the next for the same purpose as before.

These so-called " special cases " have been defined by the Committee as cases which fulfil the following conditions:—

(*a*) Although the instalment is not due, the advance has been really earned.

(*b*) The work done, for which the contractor cannot claim payment at so early a date, is work which has not been provided for in the Estimates of the following year, but formed part of the authorized programme of the current year, and has in that year been provided for by a grant from Parliament.*

(*c*) The work done and the materials used are capable of identification on the premises of the contractor as having virtually become the property of the Crown.

In the particular instances in question these conditions were satisfied, but the action of the Air Ministry was challenged by the Comptroller and Auditor General on the ground that the Air Ministry exceeded the generally recognized limits in (1) that on certain contracts providing for progress payments they made special advances beyond the instalments due, and (2) that they paid in some cases even up to 100 per cent. of the value of work done.

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* See also T.L. 25 September 1889 at p. 230.

25. The Committee have considered the two questions raised, in regard to which no express ruling has hitherto been given, and they have come to the following conclusions:—

(1) It must be remembered that these "special advances" are made not out of consideration for the contractor but solely on the ground of public financial convenience as indicated in condition (*b*). This being so we do not feel that it is necessary to distinguish between contracts which provide for regular progress payments and contracts which do not. We are informed that, in fact, it has been the practice of the War Office to exercise the recognized power of "special advances" on either type of contract.

(2) As regards the second point, it has for some time been the definite practice of the Admiralty to limit advances in these special cases to 80 per cent. of the total value of the work done, holding back 20 per cent. against contingencies. We consider that this rule should be invariably applied.

My Lords are disposed to agree with the Committee, and they are communicating with the Air Ministry.

Foreign Office.

Accounting Officer.

28. In our Third Report of 1920, and again in 1921, we had occasion to comment on the inadequacy of financial control within the Foreign Office. We are now informed that a new arrangement has been brought into operation under which the work hitherto performed solely by the Chief Clerk has been divided between the Chief Clerk and another officer, who will be Accounting Officer. The Chief Clerk, as heretofore, will be responsible for all matters of establishment, salaries, and so forth, while the Accounting Officer will be responsible for all matters of estimates, accounting, &c.

We welcome this much-needed, and we must add long over-due, reform, and express the hope that it will have the desired effect of establishing proper control over expenditure in this Department.

Class II., Vote 24.—Stationery and Printing.

State Printing Works.

30. A question arises as to the proper method of bringing to account the expenditure in connexion with the recently instituted Stationery Office Printing Works. Alternatives which naturally suggest themselves are, either that the total expenditure connected with these Works should be shown under a special subhead or subheads, or that the expenditure incurred should be charged off (in the same way as printing done by contract) against such subheads of the Vote as record separately the cost of printing for the Houses of Parliament, the cost of Parliamentary Debates, the cost of printing for Public Departments, &c., &c. In the account under review a compromise was effected whereby out of the total expenditure in connexion with the Stationery Office Works some £45,000 was charged off against Subhead E (Printing, &c., Representation of the People Act), Subhead K (Printing, &c., for the Houses of Parliament) and Subhead M (Parliamentary Debates and Records), while the balance amounting to £476,880 4*s.* 6*d.* was charged against the separate subheads relating to the Stationery Office Printing Works The estimates for 1920–21 contained no indication

that this course would be pursued, but in the Estimates for 1922–23 the position is clearly explained. We do not, however, regard this compromise as satisfactory, for even in the form employed for 1922–23 the Estimate still contains no indication of the total expenditure in respect of these Works (including the expenditure on the Parliamentary Printing done at the Works).

We recommend that in future the whole cost of the Works should be provided for under appropriate Subheads and it should be made clear on the face of the Vote (either by a note, or by alteration of the present titles) that the subheads which record the expenditure on different categories of printing are confined to printing done by contract and exclude all work done in the Government factory. Notes should also be added giving the total estimated cost of printing (whether done under contract or in the Department's own works) for Parliamentary Debates, the Houses of Parliament, the Representation of the People Act, and other heads.

My Lords request that in future estimates the entire cost of the Stationery Office Printing Works should be shown under the subhead dealing with the Works, irrespective of the fact that some of the work was done for other subheads of the Vote (e.g., *Parliamentary Debates*). *The provision on the various subheads* (*Parliamentary Debates, Printing for Public Departments, etc.*) *should be limited to outside contract printing, the wording of the subhead being modified accordingly, but a note should be added on each subhead stating that, in addition, printing estimated at £x would be carried out at the Government works, making the total for,* e.g., *Parliamentary Debates £y.*

Class II., Vote 26.—Office of Works.

Cost of administering Agency Services.

82. Our attention has been called to the question whether the Office of Works should raise over-head charges for administration, interest, &c., in respect of services which it carries out as the agent either of another Government Department or of an outside body.

In a case that came before us of work done on repayment terms for a French Educational Institute, we were informed that over-head charges were waived on international grounds. We raise no objection as regards this particular instance, but, obviously, so long as the Office of Works carries out agency services for others (and it cannot avoid so doing), it must employ a larger staff than it would otherwise require, and the cost of this additional staff should not fall on the Office of Works.

We recommend that, if the Office of Works undertakes a service as an agent, full over-head costs (administration, superannuation, interest, &c.) should be charged wherever possible. This rule should be applied as between the Office of Works and other Government Departments, for even in this type of case the question is not merely one of book-keeping or proper accountancy. There may be cases where alternative courses are open to the Department for which the work is done, and unless the Office of Works makes it a regular practice to quote and charge the full cost, the principal Department is not in a position to determine what is, from the national point of view, the most economical course to pursue.

To the First Commissioner of Works.

My Lords agree with the Committee that overhead charges for administration should be made in all cases where your Department does work for an outside body, for a self-contained fund such as the

Development Fund, or for another Government such as the Government of Northern Ireland, and I am to request that instructions may be given that such charges may be raised in all such cases in future.

In most cases, however, your Department does not act as "agent" for other Government Departments, but in its own right as the responsible Department for Government buildings; and it would be contrary to the general principle of the Public Accounts—to which on ground of simplicity and economy my Lords attach great importance—for payments to be claimed from Departments.

I am to inquire whether, in fact, your Department is performing any building work for other Government Departments as an "agency" Department; if so, whether overhead charges are being or could without waste of time and money be made.

CLASS III., VOTE 20.—ROYAL IRISH CONSTABULARY.

Expenditure not disclosed in Appropriation Account.

37. Our attention has been drawn to the fact that salary, together with house allowance, has continued to be issued to an ex-Inspector-General of the Royal Irish Constabulary in respect of a period of over two years subsequent to 10 March 1920, although a successor had been appointed to that office as from 11 March 1920. These payments have been provided out of the Vote for Royal Irish Constabulary, but they have been carried to a suspense account and have not been charged to the Vote. We were informed that they were made on the authority of the Irish Government, acting on legal advice that the officer was, on a proper construction of correspondence which had passed, entitled to them. Provision has been made in the Vote for Royal Irish Constabulary (1922–23) with a view to enabling these payments to be charged against the Vote. We cannot but express our surprise that an unusual payment of this kind should have been made and continued so long without Parliamentary authority.

It will be observed that the Committee express their surprise that salary continued to be paid to an ex-Inspector-General for Royal Irish Constabulary for over two years. My Lords are aware of the reasons of policy by which this payment was held to be justified, but they desire to point out that the continued charge to a suspense account was entirely irregular. Payment should have been charged to the Vote and provided in the Estimate in the usual way.

CLASS IV., VOTE 1. BOARD OF EDUCATION.

Pensions to Teachers.

38. In our Third Report of 1921 we called attention to certain points in regard to which the practice of the Board of Education in administering the School Teachers (Superannuation) Act appeared to differ from the rules observed in awarding pensions to Civil Servants.

We are glad to learn that the Board of Education has now agreed with the Treasury as to certain rules of practice governing the main types of case. Frequent consultation now takes place between the two Departments, and the present position appears to be satisfactory.

CLASS V., VOTE 1.—DIPLOMATIC AND CONSULAR SERVICES.

Expenses of Special Missions.

39. * * * * we trust no effort will be spared rigorously to curtail the outlay on all missions by restricting the numbers sent and the rates of allowance. In particular we would urge that the practice of allowing actual expenses (of which instances still occur) should be altogether abandoned.

40. A conspicuous instance of this practice is seen in the Colonial Office Vote (Cl. II, Vote 6) in the case of the visit of the Secretary of State to Cairo. In this case a scale of allowed expenses per day was at first fixed by the Treasury, but in response to a telegram from the Secretary of State from Cairo they waived this regular practice and agreed to allow actual expenses in lieu of the allowance, i.e., not to impose a limit. In reply to our questions we were told by the Treasury representative that this "would have been unusual before "the war, certainly; I cannot say that it is unusual now."

It seems to us that it is very undesirable for unlimited power of spending to be given to any mission, and equally undesirable for a Cabinet Minister to set the example of asking it.

My Lords entirely share the views of the Committee.

Revenue Departments.

Vote 3.—Post Office.

Control of Engineering Services.

51. Certain general changes affecting the financial arrangements of the Post Office have been brought into effect duing the year. They are in the main directed towards securing economy in labour and staff and we do not feel it necessary to refer to them in detail.

One of these changes however has a reaction on the account of the Post Office which deserves mention. In regard for the accounting for Engineering Services new arrangements have been made, of which the general effect is that for economy in administration the Post Office will rely, not so much on the Estimates for specific works, as on the cost accounting by means of standard units. Consequently, in the case of minor works, the labour and materials used will not be recorded against the individual jobs; this necessitates an alteration in the method of allocating expenditure between the Post Office Vote and the Telephone Capital Account. Hitherto expenditure on Renewal Works, involving charges both to the Vote and to the Capital Account, has been allocated as the work proceeded. The partial disappearance of the individual accounts makes such concurrent allocation impossible; under the new system the whole of the expenditure will be charged against Capital in the first place and the necessary adjustments with the Vote will be deferred, broadly speaking, until the work has been finished.

This change therefore involves a certain disturbance in the Post Office Accounts for 1920–21, the year of transition from the old system to the new, inasmuch as the Vote Account for the year has been relieved by a sum of £417,000 in respect of expenditure on works which were commenced before 31 March 1921 but were then unfinished. This expenditure had been allowed for in the Estimate for 1920–21, but, under the procedure described above, it has been debited temporarily to Capital and will be charged against the Vote for 1921–22.

52. In future years there will again be a carry-over of the same kind into the succeeding year, but this will be balanced more or less by the sum carried over from the previous year.

We mention this in order that the facts may be on record, and we shall hope to learn that the system of controlling expenditure by means of standard units has justified expectations.

My Lords would be glad to receive in due course a report of the working of the unit system of control.

ARMY ACCOUNTS.

New Form of Account.

56. The Army Accounts for 1920–21 * * * represent a distinct advance on those for 1919–20, which were the first to be presented in the new form adopted on the recommendation of the Select Committee on National Expenditure, 1918. Thus the accounts of the several units and establishments at home, in the Crown Colonies, and in Egypt are, generally speaking, complete on the new basis—except for interferences attributable to the special conditions in Ireland. A beginning was made as regards other territories (except at Constantinople and on the Rhine), though the disturbed state of Mesopotamia prevented the preparation of any complete accounts there. Where the new system was not effectively introduced, the cash records were incorporated into the income and expenditure account, on the best arrangement feasible.

In these circumstances, and as a consequence of other difficulties inevitable in the early stages of a development of this character, complete correspondence of arrangement in estimates and accounts has not been obtained.

57. During the year 1920–21 it would appear that the main energies of the Corps of Military Accountants were directed to improving and consolidating the form of account. For this reason, and also because the accounts of the previous year were only a beginning, it was not possible to make full administrative use of the new form. Recently also the operation of the system has been obscured by the sweeping reductions of expenditure effected on the recommendation of the Geddes Committee.

58. Such being the position, we feel that it is not yet possible for this Committee to express a final opinion as to the advantages secured by the change. We do, however, think that in many departments of Army expenditure the new form will, if properly and promptly utilized, prove a valuable and indeed essential instrument for control and economy. We would point out, for instance, that it is only by means of the new accounts that we are able to learn that Army expenditure in Mesopotamia in 1920-21 cost £37,000,000; that recruiting cost much more per recruit than in the year before; that regimental tailoring and boot repairing shops were in certain cases much too expensive for the work done; that a student officer at the Staff College, Camberley, costs the country £1,393, including his pay and allowances, and so on, not forgetting the economies shown to have been made in other directions. It is, moreover, only by means of the new accounts that we are able to criticize intelligently the items that make up these figures. Until more complete experience has been gained, there can be no question of departing from the main principles on which the new system is based.

We understand that the Army Council are considering the possibility of simplifying the account in certain directions, and that the Secretary of State is about to institute an inquiry of which the principle object will be to consider the way in which the accounts can be used for administrative control.

We are glad to hear that now so much of the initial work has been done it has been found possible to reduce the cost of the Corps of Military Accountants to £260,000 for the year 1922–23, and that further substantial reductions will be made next year.

60. Very great difficulty has been experienced in arriving at satisfactory valuations of buildings, stocks, &c., for the purpose of the

new system of accounts, with the result that the figures at present recorded are quite incomplete and to that extent misleading. We recognize that in the transitional period this is inevitable, but the effect is to make complete comparisons difficult. We hope that every effort will be made, with the means actually available, to obtain reliable figures as speedily as possible.

A War Office Committee has now been appointed (on which their Lordships are represented) to consider the use of the accounts for administrative control.

VOTE A.—NUMBERS.

61. The only information given this year as to the number of men on the strength of the Army compared with the numbers voted by Parliament is contained in an Appendix almost hidden away towards the end of the volume. In view of the great constitutional importance of Vote A we have expressed a wish that in future greater prominence and completeness should be given to this statement.

The Council will note the wishes of the Committee with regard to Vote A.

CERTIFICATE AS TO AUTHORIZED RESERVES.

62. It had been hoped that the account for 1920-21 would be accompanied, as was the case before the war,* by a certificate that the authorized war reserves were in all respects correct. No such certificate has been furnished, for the reason that, in view of changes likely to result from the recommendations of the Committee on National Expenditure, the amount of the reserves cannot be regarded as settled in any item. We are told, however, that there are more stocks in hand than it is intended to keep as war reserves.

I am to inquire what progress has been made towards fixing the amount of authorized reserves.

LOSS ON EXCHANGE.

Disparity between Official and Market Rates of Exchange.

71. In connexion with the heavy charge of over £3,000,000 under Head VI, Subhead R.12, on account of loss by exchange, the Comptroller and Auditor General referred to the fact that British troops in Bulgaria had been able, by use of the official machinery of exchange and unauthorized traffic in canteen stores, to make large profits for themselves, the official rate of exchange departing widely from the market rate. Similar conditions were brought to our notice last year. We understand that the fixing of an official rate of exchange was adopted mainly for accounting convenience, and we consider that steps should be taken to prevent such abuses as the above, by revising the official rates at shorter intervals, by limiting the right of the individual to transmit money home through official channels, or by some other means. In future it should not be possible for the official rate of exchange to be used as a source of profit at the cost of the State.

My Lords concur in the views of the Committee. They understand that steps have been taken to revise official rates of exchange at shorter intervals and to limit strictly the sums allowed to be remitted by officers and men through Army Paymasters.

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* See P.A.C. 5. 1909. 11 at p. 520.

Audit Inquiries.

Importance of prompt Attention to Questions raised.

72. Prolonged delay occurred in the War Office in dealing with a question raised by the Comptroller and Auditor General, prompt settlement of which might have resulted in a decreased charge for a particular group of pensions. We consider it essential that audit inquiries should be speedily dealt with, and we are glad to know that the Comptroller and Auditor General will get into personal touch with Accounting Officers on points of importance which do not appear to be receiving prompt attention in the ordinary course.

My Lords rely on the Council to ensure that prompt attention is paid to inquiries by the Comptroller and Auditor General.

Ordnance Factories.

Irregular Use of Funds.

76. The account shows a net deficit of £1,040,172 6*s*. 4*d*. which in accordance with our Second Report has been made good by an Excess Vote. The deficit is attributable to the decision arrived at, when the demand for munitions suddenly stopped at the Armistice, that alternative work should be provided at the factories in order to avoid the throwing of excessive numbers of workmen out of employment. This work was of two kinds: (*a*) 100 locomotive engines, for which no definite purchaser was, or is yet, in view, and (*b*) other work for Government Departments and outside customers taken at firm (competitive) prices, which as events have proved, were insufficient to cover the full cost of manufacture.

In the normal course, no manufacture is undertaken in the Ordnance Factories without a definite order, and to provide funds for doing the work the various " customers " (Government Departments, India, and the Colonies) make advances as required. In the case of the transactions now in question it was impracticable to call upon the customers for an advance before the goods were delivered or even (in the case of the locomotives) sold. Consequently, the cash required to finance the work was provided from general balances, first, of Ministry of Munitions funds and, later, of Army funds. Thus moneys provided by Parliament were irregularly used to finance a commercial undertaking for which no Vote had been taken. We concur in the opinion now expressed by the Treasury that an Estimate should have been presented to Parliament at the outset by the Ministry of Munitions, who were then responsible for the conduct of the factories. We think also that the Treasury themselves should have called the Ministry's attention to this course at the time.

In this connexion I am to refer to their Lordships' observations on paragraphs 16 *and* 17 *of the report.*

Navy Accounts.

Accounting Officer.

80. In accordance with the decision, concurred in by this Committee, that in the Service Departments the permanent head of the Department should be made Accounting Officer, the Permanent Secretary of the Admiralty has been appointed by the Treasury to be Accounting Officer of Navy Votes and Funds as from 1 January 1922.

Gross Accounting.

82. In several cases which have come to our notice net entries have been made in the accounts in contravention of the principle of gross accounting for which this Committee and the Treasury have expressed their preference. Thus the expenses incurred by the Admiralty in connexion with certain trading services (steel, timber, asbestos), amounting to approximately £88,000, were not charged against any Admiralty Vote, but were deducted from the total receipts, the net receipt being credited to Appropriations in Aid. Under Votes 3 and 9 certain recoveries of over-payments, made to contractors in previous years, have been credited to debit subheads of the Votes, with the consequence that the actual gross expenditure in 1920-21 is in excess of that shown in the account. Again, certain receipts in respect of the reconditioning of trawlers were credited to Vote 8, Section III E., and not carried to Appropriations in Aid.

Such transactions tend, by relieving the gross expenditure, to increase the spending power of the Department. Their cumulative effect is considerable.

We are glad to receive an assurance from the Admiralty that they entirely accept the views of the Committee as respects gross accounting and that they will give effect to them in future

See Treasury Minute following paragraph 86.

Irregular Use of Navy Funds.

84. *Expenditure on work for a private firm.*—Under Vote 8, Section I, two special subheads have been opened by Treasury direction to record the direct expenditure and the receipts, respectively, in connexion with the construction of certain vessels in H.M. Dockyards for a private firm.

The use of Navy balances to finance an enterprise of this nature without an express Vote of Parliament was admittedly an irregularity, and we are assured that but for an oversight on their part the Treasury would have required provision for this item to have been made in the Estimates.

86.—*Surplus trawlers and drifters.*—* * * * a number of the boats were placed temporarily at the disposal of the Ministry of Agriculture to be employed in fishing operations on a " profit-sharing " basis, with the object of providing employment to ex-service fishermen. These operations resulted in a loss, and towards the close of 1920-21 the Admiralty advanced £68,000 out of Navy Funds to the Ministry of Agriculture, for the purpose of liquidating the outstanding liabilities. It is admitted that this use of Navy Funds was irregular, and that the Treasury should have been consulted in order that they might decide in what way provision should be made for this expenditure, which had not been authorized by Parliament. We understand that the Treasury have now decided that the Admiralty shall bear the charge, which will be recorded in the accounts for 1921–22, and we only refer to the matter in order to emphasize the necessity of consulting the Treasury immediately in regard to any new service not provided for in estimates.

My Lords entirely concur in the views of the Committee as regards gross accounting (paragraph 82) *and the use of Naval balances (paragraphs* 84 *and* 86), *and they trust that steps will be taken to avoid these irregularities in future. In this connexion they desire to draw the particular attention of the Lords Commissioners of the Admiralty to paragraph* 17 *of the present Report.*

Statement of Works. Publication of Details and Correspondence.

89. In the Appropriation Account for the Navy we notice that 46 pages are devoted to the detailed statement of sums expended for new works, amounting to £2,000 and upwards, and 50 pages to correspondence with the Treasury in regard to works services. We should be obliged if the Admiralty would consult with the Treasury as to the possibility of reducing the matter to be printed with the account. So far as the Committee is concerned, it would be sufficient if the printed correspondence was confined to matters on which there has been any serious difficulty, or where a large amount or a question of principle is involved. We see no need to publish correspondence on small matters or questions, almost of routine. We can rely on the Comptroller and Auditor General to bring it to our notice should any matter of importance be omitted.

My Lords would welcome some reduction in the detailed statement of works and correspondence relative thereto printed in the Appropriation Account. They feel some doubt, however, whether the statement can be reduced, since it seems to them necessary to specify items over £2,000 in order that the Accounts may correspond with the Estimates. They agree with the Committee that correspondence need only be printed where there has been some serious difficulty, or where a large amount or a question of principle is involved. They think, however, that it is advisable to print correspondence as to all cases in which the Treasury has authorized a new item not provided in the Estimates, or proceeding with a new work in anticipation of Parliamentary authority. It appears to their Lordships that the tables as to overlap and excess expenditure at present included in the correspondence could be omitted, and that a note in the last column of the detailed statement of Vote 10 expenditure, included in the account, is sufficient. As the matter arose on the Admiralty Vote, they would be glad to receive the Admiralty view before communicating with the other Departments concerned.

Appropriations in Aid.

Treatment of Receipts in Excess of Estimate.

97. We notice that, wherever the sum received in connexion with any Vote exceeds the amount estimated, the whole of the sum is described as " Appropriations in Aid." In our opinion this is a misuse of a term which ought to be strictly confined to the amount actually appropriated in aid by an Appropriation Act. The result in certain Navy and Air Votes is to make a deficit appear less than it really is, or even to show a surplus on a Vote which has really been exceeded. We consider that this confuses the presentation of the accounts, though we do not suggest that it leads to the actual spending of money without authority. We hope the Treasury will consider this.

My Lords think the Committee are under a misapprehension. The Estimates presented to Parliament include, where necessary, an accounting subhead entitled " Appropriations in Aid." The amount shown in the Estimates on this subhead is actually appropriated by Parliament in aid of supply grants in the annual Appropriation Act, and, as the Committee admit, in no circumstances can a Department appropriate more than the amount so authorized in diminution of its total Supply grant. If the actual realized receipts, in fact, exceed the estimated sum authorized to be used, the balance accrues to the Exchequer. It is, however, necessarily brought to account in the Vote Account under the Appropriation in Aid subhead (which to this extent

shows a surplus). My Lords do not think any real inconvenience arises from this practice, and they would deprecate any proposal under which receipts from identical sources were shown in two different places governed solely by the accident whether or not the total receipts from sources exceeded or did not exceed the figure shown in the Estimates. It is obvious that among other inconveniences this would result in the Appropriation Account classification differing from that of the Estimates.

In the case of Navy (and Air) Estimates, a slightly more complicated position arises where under the powers of the Appropriation Act excess receipts on one Vote are used to make good a deficiency on another Vote. The effect of this procedure is to increase the spending power on a given Vote taken by itself, *and in effect to increase the amount appropriated on that particular Vote. The accounts in their present form appear, therefore, to my Lords accurately to represent the true position. Such a transfer is under the Act only permissible when the aggregate total of Navy (or Air) Votes is not exceeded; and if those Votes are regarded as a whole, as shown in the abstract prefixed to the Appropriation Account, it will be seen that no misconception can arise.**

REPORT, 1923. H.C. 125.

Treasury Minute, 1 November 1923.

CIVIL SERVICES AND REVENUE DEPARTMENTS.

INLAND REVENUE.

Excess Profits Duty and Corporation Tax. Accuracy of Assessments.

1. Under section 2 (1) of the Exchequer and Audit Departments Act, 1921, the Comptroller and Auditor General is directed to examine the accounts of the receipt of revenue in order to ascertain that adequate regulations and procedure have been framed to secure an effective check of the assessment, collection, and proper allocation of revenue, and the Comptroller and Auditor General is directed to satisfy himself that any such regulations and procedure are being duly carried out.

A test examination of Excess Profits Duty and Corporation Tax made by the Comptroller and Auditor General in pursuance of this section showed that in a certain number of cases errors had been made in computing duty or in applying the principles of the relative Acts. These mistakes have been or are being corrected. As, however, his test examination was confined to a very small percentage of the total number of assessments the Comptroller and Auditor General inquired of the Commissioners of Inland Revenue whether they had considered the possibiliy of applying some departmental check of these assessments as an additional safeguard against loss of revenue.

The Inland Revenue Department in evidence given before the Committee and in the letter printed in Appendix 4, while admitting the mistakes, represented that the errors discovered had been in most cases small in relation to the amount assessed, and did not imply that the taxpayers concerned had knowingly evaded a legal liability. Difficult circumstances obtained at the time when the Finance (No. 2) Act, 1915, was passed; there was an acute shortage of trained staff, and the high rate of Income Tax and the complicated provisions introduced into the law rendered the task of assessing revenue extremely difficult and indeed impossible to carry out with the accuracy and precision which might be expected in normal times, and the Department held that the attempt

* See further P.A.C. 2. 1925, 8 at p. 686.

to arrive at precise technical accuracy in assessments of the Excess Profits Duty would have made it impossible to carry out the instructions of the Government, which were that the duty should be so administered as to produce not merely a great yield but a great yield with the least delay. The Inland Revenue Department are satisfied that to undertake a comprehensive review of assessments would be not only uneconomical but disastrous to the yield of the other duties committed to their care. Such an examination would require over a period of many months the services of a large number of the most expert staff, which would thus be diverted from duties on which they are now fully and more profitably employed.

The Committee feel that, while it was the duty of the Comptroller and Auditor General to call attention to this point, they are not in a position to suggest that measures should be taken to secure greater accuracy in these assessments so long as such a step would involve the more serious consequence that a large amount of duty due in other directions would remain uncollected, but they feel sure that the Inland Revenue will take every step to utilize the staff available so as to secure the greatest possible accuracy in all assessments.

My Lords note the views of the Committee. They have made inquiries as to the staff required for a review of the assessments made, and agree with the conclusion reached by the Board of Inland Revenue.

Audit of Assessments of Income Tax.

2. Income Tax assessments in respect of weekly wage earners are made by the Commissioners of Inland Revenue and all documents relating to such assessments are consequently open to the inspection of the Comptroller and Auditor General on behalf of Parliament.

The documents relating to all other assessments of Income Tax stand on a different footing. They are the property of the General and Special Commissioners of Income Tax; as such they are confidential under the Income Tax Acts and are not open to inspection by the Comptroller. In these circumstances he is unable to scrutinize the basis on which these assessments are made, and his examination is limited to verifying that the amounts assessed in each district have been duly collected, discharged, or remitted.

This anomaly would have been removed had legislative effect been given to the recommendation of the Royal Commission on Income Tax, which reported in 1920 that the returns, assessments, and other documents relating to the tax, which at present are the property of the General and Special Commissioners, should in future be the property of the Board of Inland Revenue, subject to all necessary documents being available to the Commissioners for the purpose of appeals (para. 346 of their report); but the legislation which was introduced to deal with this and certain other recommendations was abandoned.

The Committee is of the opinion that it is important to the satisfactory examination of this branch of Revenue (apart from all other considerations) that the recommendation of the Royal Commission of 1920 should be given effect. As stated above, the Comptroller and Auditor General is required by statute to satisfy himself that adequate regulations and procedure have been framed (and are being observed) to secure an effective check on the assessment and collection of revenue. He has, however, no access to these assessments.

My Lords note the opinion of the Committee in which they entirely concur. They will put forward proposals for legislation on the subject when opportunity offers.

CLASS I., VOTE 10.—PUBLIC BUILDINGS, GREAT BRITAIN.

Penalties for Delays of Contractors.

7. The Accounts of this Vote and of other building Votes administered by the Office of Works contain particulars of various cases in which penalties have been waived against contractors who have failed to complete their contracts in time or have otherwise been in default. The difficulty of enforcing claims against contractors for damages on account of delay is attributable as regards English contracts to the form of the contract hitherto in use. A new form of contract has now been drawn which we are assured will obviate the difficulties previously experienced in enforcing claims.

As regards Scottish contracts no question arises, as the Office of Works have used the standard form of Scottish contract common to the building trade under which no difficulties have occurred.

Extensions of Contract without Treasury Authority.

8. Under this Vote is charged an expenditure amounting to some £13,000 for the adaptation of the Beacon and Lickey Hostels at Birmingham. It appears that the amount of the original contract for this work was £930 only, and that additional work costing over £12,000 was placed with the same firm, without fresh competitive tenders, and without reference to the Treasury. The Committee have been informed on behalf of the Office of Works that at that time it was practically impossible to get contractors to make lump sum tenders, and that the Department is assured that the procedure adopted in this case has led to no loss of public funds. Nevertheless, it appears to the Committee, and indeed the Office of Works freely admit, that the variations from the original contract in this particular case were so substantial as to require that the matter should have been referred to the Treasury. The Committee are informed that the Treasury are formulating proposals with a view to making it clear how far the Office of Works is justified in placing extensions of work without specific Treasury authority, and that the conclusions arrived at will be submitted to the Committee.

To the First Commissioner of Works.

My Lords have caused the Committee to be furnished with copies of the correspondence with your Department regarding the subject matter of paragraph 8 of the Report by which it has been determined that, where, in the progress of work on a contract, variations are found to be necessary, and in your opinion it is impracticable to invite competitive tenders for the work, you are empowered to place contracts with the original contractors without competitive tender for any specific variation, within a limit of £3,000, without the need for obtaining authority from this Board. Treasury authority would be sought for any specific variation in excess of that amount.

CLASS II., VOTE 12.—MERCANTILE MARINE SERVICES.

General Lighthouse Fund Account. Award of Pension.

13. We have considered a case in which a pension has been awarded to a clerk at Trinity House who had been found guilty of embezzlement of Lighthouse Funds, had been dismissed and sentenced to three months' imprisonment.

Under section 665 of the Merchant Shipping Act, 1894, a Lighthouse authority may with the sanction of the Board of Trade grant superannuation allowances to its employees, subject to the condition

that no superannuation allowance shall exceed the proportion of his salary which may be granted to a person in the public Civil Service under the general Superannuation Acts. After informal consultation with the Treasury (who intimated that if the case had arisen in the Civil Service no pension whatever would have been granted) the Board of Trade, under the section quoted, sanctioned the award to the officer in question, whose salary with bonus recently amounted to £750 to £800 a year, of a pension of £250 per annum (instead of the pension of £375 which would have been granted had he retired under normal circumstances) and a reduced gratuity. In making this award, which is clearly within their statutory powers, the Board of Trade appear to have been unduly influenced by humanitarian considerations. The Treasury, on the award being brought to their notice by the Comptroller and Auditor General, pointed out that experience has shown that in the administration of section 665 of the Merchant Shipping Act, 1894, rigid adherence to the law and practice governing the award of superannuation in the Civil Service is not always practicable, but they proceeded to add that they regarded uniformity of practice in such cases as very desirable, and that, in their opinion, there were serious objections on general grounds of principle to the action taken by the Board of Trade in this particular case. The Committee cannot but express regret at the action taken by the Board of Trade in this matter. Distressing as were the circumstances of the case, they feel that, having regard to the importance of maintaining the purity of the public service, it was unfortunate that the Board should have exercised their discretion so as to relieve the perpetrator of a serious offence of the full consequences which in the general practice of the Service follow on serious dishonesty. While they do not suggest that the award should be reconsidered at this date, they trust that in future cases the Board of Trade will conform to the broad principles on which the general Superannuation Acts are administered by the Treasury.

My Lords entirely agree with the views of the Committee regarding the pension awarded to a clerk at Trinity House who had been found guilty of embezzlement. The interests of the Public Service require uniformity of practice in this matter, and they would be glad to receive an assurance from the Board of Trade that the Board will in future conform to the broad principles on which the general Superannuation Acts are administered by the Treasury.

Public Trustee and Mercantile Marine Services.

Responsibility for Safeguards against Theft.

14. The accounts for the year 1921-22 record two instances of loss from strong rooms * * * * * * In the course of the evidence given before the Committee concerning the second case the question was raised how far the responsibility for the loss of the silver medals rested with the Accounting Officer of the Board of Trade, who was responsible for the medals, or with the Office of Works, who had provided the accommodation in which the medals were stored and which was admittedly not fully burglar and fire proof. In the view of the Committee, responsibility in such cases must be settled by the following rule:—The provision of strong rooms and safes is a responsibility of the Office of Works; but it rests with the Head of a Department to satisfy himself that the accommodation, when provided, is adequate for the purposes of his Department, and, unless he makes a formal written protest, he cannot

plead defective accommodation in extenuation of any loss that may subsequently occur.

My Lords have caused a circular letter to be issued to all Departments regarding Strong Room accommodation and Safes. They take this opportunity of bringing to the notice of all Departments the views of the Committee as regards responsibility, in which they concur.

CLASS IV., VOTE 11.—PUBLIC EDUCATION, SCOTLAND.

Double Pension to a Teacher.

24. The attention of the Committee was drawn to the very generous treatment accorded to a teacher by the award of a retiring allowance from the Education (Scotland) Fund. The teacher had been granted an annuity of £200 (part of which is reimbursed indirectly from public funds) by a local authority in England on abolition of his post, and in view of this the Board of Education refused to grant a pension under the School Teachers (Superannuation) Act, 1918. By a renewed engagement of 33 days in a Scottish school, however, the teacher revived the admissibility for pension of 16 years' service in Scotland before his English service, and the Scottish Education Department awarded him an allowance under their scheme. As the annuity granted by the local authority was approximately equal to the pension that could have been awarded to the teacher on his combined service in the two countries, the position is unsatisfactory.

The Committee learn that the Scottish award is strictly legal, but they consider that at a suitable opportunity steps should be taken to remove the possibility of an anomaly of this kind.

My Lords note the views of the Committee regarding the anomaly disclosed in regard to retirement allowances to teachers with service under both Scottish and English authorities. The facts of the case will be kept in view for consideration in connexion with the amendment of the Superannuation Scheme and Rules shortly to be undertaken.

CLASS V., VOTE 3.—MIDDLE EASTERN SERVICES.

Form and Scope of Estimate.

28. Before 1 April 1921 there was no separate Vote for Middle Eastern Services. The expenditure necessary for carrying out the policy of His Majesty's Government in this area, which was almost entirely military, was charged against the accounts of the fighting services concerned. Early in 1921 the Middle East Department of the Colonial Office was constituted and a separate estimate was presented for that department covering both civil and military charges in Mesopotamia and Palestine as from 1 April 1921. It was then arranged that the expenditure out of Army and Air Votes in these countries would be repaid to the War Office and the Air Ministry by the Middle East Department, the sums in question being appropriated in aid of Army and Air Votes, and the net total of the Army and Air Estimates was thus reduced by the amount provided for military expenditure in the separate Vote for the Middle East. This arrangement is still in force. The object of this change, as explained to Parliament at the time, was to mark the fact that the Secretary of State for the Colonies had become immediately responsible for policy as regards the Middle East, and it was thought that the institution of a separate Vote would restore to the House of Commons a more effective control over the expenditure by making the Minister actually responsible for the policy himself answerable for the expenditure (*see* Parliamentary Debates, 15 March 1921, Vol. 139, Col. 1280–81, and 14 June 1921, Vol. 143, Col. 268).

This arrangement, regarded from the point of view of Parliamentary control over policy in its widest sense, has obvious advantages, but from the accounting point of view it involves serious drawbacks. The Accounting Officer of the Vote for Middle Eastern Services, Class V, Vote 3, is nominally responsible for expenditure which, in the year 1921–22, amounted to just over £27,000,000. Of this total £21,682,000 represented a block repayment to the War Office of its expenditure in Mesopotamia and Palestine, and £1,564,000 a similar repayment to the Air Ministry, making a total of £23,246,000 over which the Accounting Officer for the Middle East had no detailed control at all. This, from the accounting point of view, is certainly undesirable. Again, viewed as a statistical record of the total expenditure involved by the policy of His Majesty's Government in the Middle East, the expenditure brought to account under the Vote for Middle Eastern Services can only be regarded as a rough approximation owing to the fact that as regards certain items no charge is made against the Vote for stores which have been consumed but not replaced.

The Departments concerned are disposed to advocate discontinuance of the Vote in its present form, but as the matter is one primarily of Parliamentary control they have referred the question for the consideration of the Public Accounts Committee.

After full consideration the Committee recommend that in future the Vote for the Middle Eastern Services should be confined to those items of expenditure which are directly controlled by the Colonial Office and that all military expenditure connected with the region should be provided in and charged finally against the Votes for Army or Air as the case may be. An Appendix should be added to the Estimate (and to the Appropriation Account) to show the total expenditure from all sources involved by the Middle East.

If under the rules of procedure a general discussion on civil and military policy in the Middle East would be out of order on a Vote limited to provision for the civil portion, a token subhead could be inserted in the Vote making a nominal provision for the expenditure of the fighting services.

*My Lords are dealing separately with the recommendation regarding the form of the Estimate for Middle Eastern Services.**

" Grant in Aid " of an Indeterminate Sum.

29. The Supplementary Estimate for Middle Eastern Services presented on 7 February 1922 (H.C. 1 of 1922) included the following item.—

Subhead J. Armenian and Russian Refugees (including a grant in aid), £158,000.

In a footnote to the Estimate it was stated that a portion of the sum provided would be paid as a grant in aid into the Lord Mayor's Fund.

Hitherto it has been the practice in asking Parliament to vote money as a grant in aid to indicate to the House of Commons on the face of the Estimate the specific sum which it is proposed should be so voted. There is good reason for this, inasmuch as the effect of voting a grant in aid is to exempt the item in question from the operation of the rules affecting the surrender of unexpended balances, and in certain cases also, of which the present is an example, to withdraw the expenditure out of the grant in aid from the examination of the Comptroller and Auditor General.

* See further P.A.C. 2. 1924. 21, at p. 677.

In the present case no definite sum was mentioned and it was left to the Treasury to determine how much of the total £158,000 should be treated as a grant in aid. We were informed on behalf of the Treasury that there were certain difficulties in the way of determining the exact amount of the grant in aid at the time when the Estimate was presented, but that they did not wish to defend in principle the course adopted. We are strongly of opinion that in all future cases where Parliament is asked to vote money as a grant in aid the exact amount of the grant should be specified in the estimate so that Parliament may be aware of the precise sum which it is proposed to exempt from the ordinary conditions which govern accounting for voted money.

As regards paragraph 29 of the Report, dealing with the " Grant in Aid " of an indeterminate sum, my Lords are in agreement with the views of the Committee. In making a Grant in Aid Parliament gives an exemption from the ordinary obligation of surrender which cannot be applied to any greater sum than the amount for which Parliament has sanctioned it.

The amount exempted from surrender should be definitely stated in Votes and my Lords will take steps to secure that in future the amounts of Grants in Aid are clearly stated in Estimates presented to Parliament.

Class VI., Vote 3.—Ministry of Pensions.

Payment of Imperial Pensions Overseas.

30. The clearance of advances made to certain Dominion Governments for the payment of Imperial pensioners residing overseas has been attended with some difficulty and delay, and the attention of the Committee was directed especially to the fact that in the Union of South Africa the pensioners did not subscribe a declaration or life certificate in the form determined by the Treasury under the Appropriation Act, but used the Dominion forms. There has thus been a technical irregularity in regard to a number of these payments, but the Committee learn that the Treasury and the Ministry of Pensions are taking steps to regularize the position for the future, and they do not consider that any objection need be raised to the acceptance of payments already made.

With regard to the arrangements for the audit of this expenditure, the Committee are informed that the Audit Departments of the Dominion Governments will examine the payments and give a certificate, but the Comptroller and Auditor General has reserved the right to call for vouchers for any period, in order to be able to make an independent examination, while, if necessary, he would also send out officers to make a local test audit on the spot. The Committee concur in these arrangements as being adequate and economical.

The Minister will note the concurrence of the Committee in the arrangements made for the audit of payments overseas of Imperial Pensions.

Doubtful Interpretation of Royal Warrants.

31. The principle of the clauses in the Royal Warrant governing the award of pensions and allowances to wives and children in respect of disabilities arising before marriage was that the grant of allowances to widows and children of disabled soldiers should be confined to family obligations which had been incurred by the soldier before the receipt of the injury or before removal from duty on account of the contraction or aggravation of the disease entitling to a pension. The Ministry of Pensions, however, adopted an interpretation of the Warrant which

was of wider application, and while the Treasury recognized that the pensions could not be withdrawn without extreme hardship, and authorized a number of awards under the Dispensing Warrant as an act of grace, there remained a group of cases for which they were unable to give covering sanction because, the plain terms of the Warrant having been departed from, they thought that the matter should come before the Public Accounts Committee. After consideration of the circumstances the Committee recommend the admission of the awards in question, but they hope that in future the Ministry of Pensions will be careful to consult the Treasury before adopting a doubtful interpretation of the Royal Warrant.

My Lords have received an assurance from the Minister that he will consult this Board before adopting an interpretation of a Royal Warrant which may be open to doubt.

Frequency of Life Certificates.

32. The Committee were informed that the Departmental Committee appointed to inquire into the administrative machinery of the Ministry of Pensions had recommended that the validity of life certificates should in future be extended from 13 to 26 weeks, and that allowance books should contain 26 weekly drafts instead of 13. A successful experiment has since been made with the issue of half-yearly allowance books for widows, with life certificates inserted for completion at the 10th and 23rd weeks, and as a result it is now proposed by the Treasury that, in the case of all pensioners, book for six months should be issued containing one life certificate only. The change will effect administrative economy and a considerable cash saving, but it will involve an amendment of the clause in the annual Appropriation Act requiring a quarterly declaration to be signed by all recipients of non-effective grants. The Committee informed the Treasury that they approved the amendment, which will be incorporated in the Appropriation Bill to be presented to Parliament during this Session.

The Appropriation Act, 1923, has been so worded that half-yearly certificates as to life and continued eligibility of pensioners may be accepted instead of quarterly certificates as formerly.

Waiver of Prosecution on grounds of Policy.

34. The Committee learn that a sum of £124 14s. 6d. in all has been charged without Treasury authority to the Vote for the Ministry of Pensions in a previous year, being the amount of certain payments by the East Ham War Pensions Committee which were disallowed. In all the circumstances they recommend that the sum in question be now allowed as a charge against public funds.

The case raises a general question of some importance. It appears that Crown Counsel were instructed to take proceedings for the recovery of these amounts as civil debts, but declined to proceed on general grounds of public policy. The Lords Commissioners of the Treasury thereupon expressed the view that the extent to which considerations of public policy should affect administrative action is a matter for their Lordships and the Department concerned, and for this reason they withheld sanction for writing off the amount in question. The Committee agree with the view of the Treasury that the question whether or not it is expedient to press a prosecution on grounds of policy as opposed to legal grounds must in the last resort be one for the decision of the Administrative Ministry concerned in consultation with the Treasury.

My Lords now grant their covering authority for the charges already included in the Vote for the Ministry of Pensions. They note the Committee's concurrence in the view "that the question whether "or not it is expedient to press a prosecution on grounds of policy as "opposed to legal grounds must in the last resort be one for the "decision of the Administrative Ministry concerned in consultation "with the Treasury."

UNCLASSIFIED SERVICES, VOTE 2.—SHIPPING LIQUIDATION.

Gains and Losses on Exchange.

41. Subhead L of this Vote includes a charge of £80,268 for losses on exchange. The Committee are informed that this item represents the gross cumulative loss on the accounts, mainly relating to the years 1917 and 1918, arising for the most part from the practice of re-valuing balances held in local currency at the end of each month. Against this gross loss, however, there is a contra item of profit arising from the same cause in different places, which is included in and not shown as a separate item of the Appropriations in Aid. The account as printed is therefore misleading. The Committee suggest that as far as possible, in cases where there is a debit to an account offset by a credit elsewhere, this fact should be explained on the face of the account.

My Lords accept the Committee's suggestion that where charges or credits are included in accounts, and relevant contra items are included in other accounts or under other subheads, suitable notation should be made. They desire Accounting Departments, in preparing Appropriation Accounts, to take steps accordingly.

UNCLASSIFIED SERVICES. VOTE 13.—UNEMPLOYMENT GRANTS.

Issue not in accordance with the Terms of the Estimate.

47. On the face of the Estimate for this service it was stated that "grants in respect of approved works of public utility on which the "unemployed can be engaged will be made by the Unemployment "Committee, subject to such terms and conditions as the Treasury "may approve. Advances in respect of grant will be made from time "to time pending completion of the work. Final payments of grant "will be made upon production of accounts duly audited . . ."

The Unemployment Grants Committee were authorized by the Treasury (amongst other matters) to contribute out of this Vote up to 50 per cent. of the expenditure incurred by the Ministry of Transport on certain road schemes. The total expenditure on these schemes was estimated at £558,000 and the contribution from this Vote was fixed at £260,000. The last-mentioned amount was issued to the Ministry of Transport in November 1921, and has been charged in full against this Vote. The total expenditure on these schemes up to 31 March 1922 was, however, only £316,842, of which £141,595 was certified by the Ministry as the amount chargeable against the contribution of the Unemployment Grants Committee. In order, however, to avoid a surrender of the unexpended balance of £118,405 and the necessity for revoting this sum in the following year, the total issue of £260,000 has been charged in the present account.

As the contribution of £260,000 was not voted by Parliament as a grant in aid, the course adopted in this matter (which appears to have been partly due to a misunderstanding) is irregular, as is admitted by the Treasury, and the Committee recommend that the charge of £118,405

against the year 1921-22 be disallowed and be transferred to the succeeding year.

My Lords now understand that out of the sum of £118,404 13*s.* 6*d. drawn from the Vote but not actually expended in the year* 1921-22, *only* £33,452 3*s.* 6*d. was spent in the financial year* 1922–23. *In these circumstances only* £33,452 3*s.* 6*d. may be charged to the Appropriation Account of* 1922–23, *the balance, as expenditure actually occurs, being charged to the accounts of subsequent years.*

NAVY APPROPRIATION ACCOUNT.

Pay of Mobilized Reservists. Interpretation of Treasury Instructions.

50. In connexion with the industrial emergency in the Spring of 1921, the Treasury issued instructions that the pay of those Civil Servants who were mobilized as Naval, Military, or Air Force reservists, should be adjusted to the extent of their Naval, Military, or Air Force pay. These instructions were misinterpreted by the Admiralty in two directions with the result that overpayments were made which the Treasury declined to sanction (*a*) to certain reservists called up from Post Office employment and (*b*) to certain military reservists released on indefinite leave from their units, who were allowed to resume their civil employment in His Majesty's Dockyards.

The Committee recommend that in the circumstances these overpayments (which are charged, in the first case against the Post Office Vote and in the second against Navy Vote 8. I.) be allowed to stand. They feel, however, that the difficulties which arose in these cases might have been avoided had the Admiralty consulted more fully with the Treasury.

My Lords now give their covering authority for the charges made in accounts of 1921–22 *in regard to pay of mobilized reservists. The Lords Commissioners of the Admiralty are fully aware of their Lordships' views in regard to the payments made, and I am to ask that in any future case where doubt arises as to the interpretation of instructions from this Board, my Lords may be consulted before definite action is taken.*

Surprise Checks of Cash Balances.

51. Amongst other items charged against Balances Irrecoverable is a net sum of £1,021 9s. 5d., lost through the defalcations of an Acting Paymaster Lieut.-Commander R.N.V.R., who was subsequently tried and convicted. This officer was employed in London to wind up the accounts of a certain force that had been employed during the war. The ordinary periodical check of his cash balance was carried out, but, as it was expected that the work would occupy only a few weeks, no surprise checks were instituted. The work dragged on, and ultimately it was found that he had been guilty of defalcations involving a net loss as stated. The fraud escaped detection because the officer, who had a blameless record and an intimate knowledge of banking procedure, was able to cover up the deficiency in his cash at the dates of the ordinary periodical check by temporarily inflating his official bank balance by cheques drawn from his private account at another bank and by subsequently reversing the process and manipulating documents. These irregularities would have been immediately detected had a surprise check been carried out.

In the circumstances which have arisen there appears to the Committee to be no alternative to writing off the loss, but the Committee

cannot emphasize too strongly the necessity of maintaining surprise checks of cash in the case of all officers, however blameless their previous record may be. * * * * *

My Lords have further considered the circumstances of the loss due to the defalcations of an Acting Paymaster Lieutenant-Commander, and in view of the comments of the Committee they now give their covering authority for the writing off of the loss incurred. As the Lords Commissioners of the Admiralty are aware, this Board attaches the highest importance to " surprise " checks of cash balances.

Stock Valuation Statements.

52. It was the practice, before the War, to include in the Navy Appropriation Account, statements showing the values of stocks held at the beginning and end of the financial year as regards Victualling and Royal Marine Stores (Vote 2), Naval Stores (Vote 8), and Naval Armament Stores (Vote 9). This practice was discontinued during the War, but has now been resumed as regards Victualling, etc., Stores and Naval Stores. A proposal has been submitted to the Committee by the Admiralty, with Treasury concurrence, that the statement showing the value of Naval Warlike Stores, which has always been misleading and incomplete, should be abandoned. The Committee agree to this proposal, subject to the condition suggested by the Treasury, namely, that a certificate as to the adequacy of stocks should be included in the Appropriation Account. It may be well to emphasize the point that the record with which it is proposed to dispense is only a record of value, which has hitherto been specially prepared once a year. The complete accounts of Ordnance Stores will continue to be kept in quantities. These accounts will be available in the future, as in the past, for the examination of the Comptroller and Auditor General, who will thus be in a position to scrutinize them on behalf of this Committee, and, if necessary, to call attention to any excess or deficiency in the quantities held, as compared with the authorized reserves.

The Lords Commissioners of the Admiralty will note the concurrence of the Committee in the procedure arranged by which certificates as to the adequacy of stocks of naval [warlike] stores will be furnished in future in lieu of Stock Valuation Statements.

Services undertaken on Repayment Terms.

55. The Committee learn with satisfaction that the Admiralty have recently issued instructions that in future services on repayment terms shall not be undertaken for outside parties unless deposits or instalments are obtained to cover the cost of the service. This measure will obviate the delays, not always unaccompanied by difficulties, which have sometimes been experienced in recovering the cost of such services in the past.

The Lords Commissioners of the Admiralty are aware that my Lords share fully the views of the Committee in regard to services undertaken on repayment terms.

Responsibility for Store Accounting.

56. *Store Accounts.*—The Committee were struck by the fact that no less than six different officers appeared to give evidence in regard to different branches of the store accounts, viz., the Directorates of Stores, of Armament Supply, of Dockyards, of Expense Accounts, of Naval Ordnance, and of Victualling. The Committee inquired whether

each of these officers is responsible for the stores in more or less watertight compartments. The answer was that this is so, each Department being responsible for its own store accounts, subject, as explained in answer to a later question, to the general responsibility of the Secretary to the Admiralty, as the Accounting Officer. This division of responsibility, from the point of view of the Committee, is certainly bewildering and inconvenient, and a question of greater importance suggests itself, namely, whether it may not lead to over-lapping and to over-elaboration within the Department itself. It will be remembered that with the object of securing greater financial control within the Admiralty the functions of Accounting Officer for cash were transferred, as from 1 January 1922, from the Accountant General of the Navy to the Permanent Secretary to the Admiralty. But the Committee is informed that this change did not affect the position and responsibility of Store Accounting Officers, and the Heads of the Store Departments remained responsible for the store accounts, their position in this respect still being as laid down in paragraph 39 of the Appendix to the Fourth Report of the Committee of Public Accounts, 1889.* The Committee think it is pertinent to point out that the Navy is the only Department in the public service in which the Accounting Officer does not undertake the sole responsibility of answering before the Committee all questions relating to the accounts, and it appears to them that the time has come when the existing arrangements in the Admiralty may be with advantage reviewed. They have not been able, in the time at their disposal, to investigate this matter, but they would propose to return to it next year.**

My Lords will be glad to receive a report on the general question of the organization of store accounting in your Department. On the information at present available to them, they are disposed to agree generally with the comments of the Committee, and they would welcome steps for the better co-ordination of store accounting in Admiralty Departments.

AIR SERVICES.

Re-arrangement of Estimates.

59. In February last the Treasury submitted to the Committee proposals for certain alterations in the form of the Air Estimates put forward by the Air Ministry.

The main features of these changes are, first, the creation of a new Vote for the Air Force Reserve, secondly, the transfer of provision for Meteorological Services from Vote 8 to Vote 6, and thirdly, the suppression of the existing Vote 9 for Experimental and Research Services and the transfer of the bulk of the Vote to Vote 3.

The Committee satisfied themselves that these changes are justified on comparison with the Army and Navy Estimates and are desirable on administrative grounds, and that although they involve the suppression of the old Vote 9 they will not tend to impair Parliamentary control.

They have therefore informed the Treasury that they concur in these proposals, subject to the following stipulations:—

(*a*) that the new Appendix which would give details of expenditure on research should be framed on the existing lines of Vote 9, not on any narrower interpretation of the term research;

(*b*) that notes should be appended to the new Vote 6 and to Vote 8 showing the estimated expenditure upon Meteorological Services which is attributable to Civil Aviation.

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* See p. 244. ** See further P.A.C. 2. 1925. 35, at p. 689.

At the same time they expressed the opinion that the Appendix giving details of the expenditure on research should be so drawn as to exhibit as far as possible a comparison between the expenditure proposed for 1923–24 and Air Vote 9 for 1922–23.

The changes in question were introduced in the Air Estimates for 1923–24 presented to Parliament on 5 March.

The Committee have further approved, in principle, a recommendation of the Treasury that two additional Air Votes should be instituted for Educational and Training Services and for Medical Services in the Estimates for 1924–25. The institution of these separate Votes should greatly facilitate financial control within the Air Ministry and by the Treasury.

My Lords note the comments of the Committee regarding the rearrangement of Air Estimates, which has been adopted for the current year subject to the conditions proposed by the Committee. They desire to receive at an early date detailed proposals as to the additional Air Votes to provide for Educational and Training Services, and Medical Services, respectively.

ARMY ACCOUNT.

New Form of Account.

65. This is the third year in which the Army accounts have been rendered on the new Income and Expenditure basis with subsidiary cost accounts, and the question naturally presents itself how far the new form of account is proving of value for purposes of Parliamentary control. The Committee learn that there is at present sitting a Departmental Committee under Sir Herbert Lawrence to advise the Army Council how far this form of account is likely to be useful and with what degree of elaboration it should be kept. The Committee therefore feel that they are not yet in a position to arrive at a definite conclusion. They regard the question as one of great importance, and hope later to revert to it more in detail.

66. A glance at the accounts will show that in many directions the figures as set out on the new basis are very illuminating. The Committee refer particularly to the details given under Head III as regards educational establishments and working expenses of hospitals, depots, etc. Perhaps the most striking of these accounts is that relating to Mechanical Transport Companies (Head III, F.v.), which shows, on the basis of figures regarded as typical, that the cost per mile for Army motor transport, including all overhead charges, ranged from 2*s*. 2*d*. per mile for light cars up to 8*s*. per mile for petrol lorries. The Accounting Officer informed the Committee that these costs would be made the subject of special investigation. Study of the Tables given as to the cost of Horse Transport and Mechanical Transport Companies indicates that on the basis of the charges raised against units a Horse Transport Company only earns its living on one day out of seven, whereas the Mechanical Transport Company earns its living about four days out of seven. Other facts which are brought out by this portion of the account and which could not be discovered from the account in the old form, are the high cost per student in some of the Educational establishments and the very heavy proportion of supervision and administration in certain Army establishments as compared with the direct operating charges. Instances will be found in the Staff College, the Cavalry School at Netheravon, the Army Ordnance Depots, Engineer Store Depots, Mechanical Transport Depots, Supply Depots. The Committee were glad to hear that the Accounting Officer agreed that this matter requires further examination. The costing figures

relating to the hospitals also seem to the Committee to be a valuable instrument towards economy, although no direct comparison appears to them to be possible between an Army hospital which necessarily must keep a reserve of unoccupied beds to meet emergencies, and an ordinary civil hospital whose great aim is to utilize its beds to their fullest capacity.

The Committee feel, however, that cost comparisons between military hospitals working both at home and overseas under similar conditions ought to provide data of material value. They consider that data so obtained should be the subject of report to the hospitals concerned as soon as possible after completion of the inquiry.

68. On the other hand the account for the year 1921–22, though it represents a considerable advance upon its two predecessors, is still in many respects incomplete and imperfect. It is still in the transition stage. Considerable difficulties have been experienced in compiling certain portions of the account on the new costing basis, and to complete and co-ordinate the figures of cost (including the value of stores supplied and services rendered) prepared by the unit cost accountants in the various Commands, very broad and sometimes rough adjustments at headquarters proved necessary.

Thus the Committee learns that detailed cost accounting has not been carried out in the Armies of the Rhine or in the Constantinople area, and consequently to some extent the costs, e.g., for consumption of stores, have been allocated to these Armies not on the basis of ascertained fact but on the estimate of numbers in the occupied areas. Another illustration of the same defect occurs in the case of the expenditure on maintenance and repair of Barracks, Hospitals, etc. (Heads III K. (ii) 1, and III K. (v)). . . . . .

69. Correspondence between estimate and expenditure in the accounts is not yet close and transfers from one head of account to another (due often to the fact that the new form of account has not yet been perfected and is being improved as experience suggests) have obscured a comparison between the estimate and the account. . . Again, the War Office continue to experience great difficulties in placing proper valuations upon the accommodation occupied for Army purposes and in arriving at the true value of Army stores, the figures for which items are still very incomplete and cannot without considerable cost be completed for some years. Indeed, the Comptroller and Auditor General found on his examination that certain adjusting entries relating to Stock Accounts, made at the War Office, resulted in an apparent over-statement by £6,728,000 of the stocks valued since 31 March, 1921. These and other defects in the account, which detract from its value as an accurate record, may be excused as incidents inevitable in the very difficult task of re-modelling the whole structure of Army Accounts, and endeavouring, for the first time, to show in them the cost of units and establishments (including the value of stores consumed and services rendered)—a task which involves the valuation (not heretofore attempted) of all military buildings and huge accumulations of stocks, and the construction of a balance sheet.

70. The Committee do not wish to stress the importance of defects which may be temporary, but they mention them because they illustrate the difficulty which the Committee must experience in these early stages of assessing the relative value of the old and new form of account. A cash account proceeds on the basis of certain proved figures and the margin for error or difference of opinion in its presentation is extremely narrow, but in constructing an Income and Expenditure Account on a

cost basis there is scope for wide variation in arrangement and presentment. In this connexion the Committee take note of the fact that the Comptroller and Auditor General's certificate to the account is confined to the cash expenditure.

71. The Committee believe that all those who have experience of practical commercial undertakings will agree that the costing system is of great value, but needs care in its application. The Corps of Military Accountants, which was established on the top of the Army Pay Corps, the Army Accounts Branch, and the Army Audit Staff, cost in 1921–22 £430,346. This figure has been reduced in the Estimates for 1923–24 to £232,200, and the Committee are informed by the Accounting Officer that as soon as the new scheme is something more than an experiment and is definitely approved it is his intention to amalgamate the Paymasters who keep the cash accounts with the Accountants who keep the cost accounts, a measure which would result in considerable reductions of expenditure by obviating the overlapping which now occurs between the two staffs.

It is at present, unfortunately, impossible to arrive at any figure which will show even in a general way what administrative economies have been effected by the new system, the operation of which has been obscured by the drastic reductions which have been effected in the Army by general measures of economy.

The Committee would further point out that it must inevitably be many years before it will be possible effectively to compare Army Accounts under the new system over a period of years. Apart from the time that must elapse before reserves are fixed and all stocks and buildings valued, if that is to be done, the whole new scheme is too much in a state of flux for any valuable comparisons to be made of the figures even for particular units by outside bodies not intimately acquainted with the changes that have been made at various stages.

These paragraphs relate to the system of cost accounting which has been introduced for Army expenditure, and my Lords propose to make no detailed comment on them pending the receipt of the Report of the Committee which is at present considering the extent to which the system should be carried and the practical application of the information derived from it. They hope soon to be in possession of that Report.

Embezzlement by a Field Cashier.

76. A noteworthy item among the cash losses considered by the Committee was the embezzlement of £12,049 by a field cashier in France, who was sentenced by a military Court. The fraud was facilitated by neglect to check the officer's cash for a few weeks in view of his impending demobilization, and by a defect in the requisition for cash, which did not provide for a statement of the balance in hand. Thus, although the cashier held a large balance in francs and the scale of expenditure was decreasing rapidly, the Command Paymaster issued further large sums in cash, which were misappropriated by the cashier. The form of requisition has now been amended, but the Committee observe that in this instance, as in that referred to in paragraph 51 on the Navy Account, the relaxation of normal checks in the closing stages of the existence of an account has had disastrous results, and they trust that the lesson will be duly appreciated.

My Lords endorse the views of the Committee. The facts referred to emphasize the importance of " surprise " checks on cash balances in the hands of cashiers and others, and the danger of any relaxation of such checks, particularly in the closing stages of the existence of an account.

ARMY (ORDNANCE FACTORIES) APPROPRIATION ACCOUNT.

Ordnance Factories Supplies Suspense Account.

79. During the year under review the Ordnance Factories Supplies Suspense Account has been re-opened.

This Suspense Account, the nature and origin of which are fully set out in the Epitome of the Reports of the Public Accounts Committee (pp. 385–388) is in effect a fund to provide for the replacement of worn-out buildings and machinery and other necessary capital expenditure, and to it are carried all surpluses or deficiencies on the Appropriation Accounts of the Ordnance Factories. In normal circumstances a surplus consists generally of sums recovered from customers for capital expenditure in previous years, as a charge for depreciation, or for the value of stores taken from stock; while conversely a deficit is due to expenditure on raw material or plant which cannot be wholly brought into charge against a customer within the year under review. A credit balance on the Ordnance Factories Supplies Suspense Account can therefore only arise to the extent to which over a period of years the surpluses exceed the deficits.

Before the war the rule was that the credit balance on the Account might be accumulated up to a total of £100,000 but that any excess over that amount should be surrendered to the Exchequer. The account was closed during the war but in August 1922 the Treasury agreed, at the instance of the War Office, that it should be re-opened, and that the maximum limit up to which surpluses might be accumulated should be raised to £250,000.

It is represented to the Committee that this increase is justified partly by the increase of prices, partly by the greater variety and complexity of the armaments now required by the Army (though its strength has been reduced), and partly by the difficulty experienced in pre-war years in working with the lower limit.

The Committee have felt some hesitation in regard to this point: but in all the circumstances, and especially in view of the fact that no money can be expended out of the Ordnance Factories Supplies Suspense Account without the express authority of Parliament given on the annual estimate, they do not wish to raise any objection to the change. But the question whether the limit of £250,000 is or is not more than sufficient for the requirements of the Ordnance Factories under the new conditions should be reviewed in the light of experience.

My Lords note the acquiescence of the Committee in the increase of £100,000 to £250,000 in the permissible credit balance of the Ordnance Factories Supplies Suspense Account. They propose to review from time to time the amount of balance permissible as a maximum.

Special Votes to be surrendered if not required.

80. The normal requirements of the Ordnance Factories in peace time generally necessitated only a token Vote for £100. In the year 1921-22, in order to provide against a possible cash deficiency, a Vote of £100,000 was taken. The outcome of this portion of the account shows that, apart from the grant, the operations resulted in a surplus of £18,864. The Committee are informed that this last-mentioned sum will stand to the credit of the Ordnance Factories Supplies Suspense Account, and that the grant of £100,000, which was not required for the purpose for which it was voted, will be surrendered to the Exchequer.

Their Lordships have given instructions, by Minute dated 1 August 1923, for the surrender from the balance of the Suspense Account of £100,000—being the amount of a Parliamentary grant which was not required.

GENERAL.

Certificate of Superior Authority.

84. Accounting Officers in certain cases are required to give an annual certificate that authority superior to that of the Department concerned has been obtained when required. In paragraph 45 of their Fourth Report the Committee of Public Accounts, 1920, asked the Treasury to consider whether it was desirable to extend the requirement of this certificate (which has been limited to the three Service Departments, and the Ministries of Pensions, Shipping, and Munitions) to the more important of the Civil Departments.

The Committee are informed that on examination of this question the Treasury have now come to the conclusion that this special certificate should for the future be limited to the accounts of the fighting services and to the Ministry of Pensions, these being the Departments which have financial powers delegated to them to an extent not applicable to other Departments of the Service. This proposal is supported by the Comptroller and Auditor General, who points out that the multiplication of special certificates may be held to imply that the signature of the Accounting Officer standing by itself at the foot of an account (as it does in most cases) is not in itself a complete certificate of the correctness of the account. The Committee recommend that this proposal be adopted.

My Lords take note of the Committee's concurrence in the conclusion which they had reached regarding the special certification of Appropriation Accounts.

Gifts of Public Property.

85. In their Reports of the last two years the Public Accounts Committee have called attention to the practice of making gifts of public property without express Parliamentary authority, and recommended that in all cases where the value of any property to be included in a gift exceeds £10,000 the concurrence of Parliament should first be obtained.

This matter has now been further considered by the Treasury, who submitted the following proposal to the Committee.—

> " Where it is proposed to make a gift of public stores or " property not requiring replacement, either of an unusual nature " or exceeding £10,000 in value, the Treasury will present to the " House of Commons a Minute giving particulars of the gift and " explaining the circumstances. Treasury assent to the gift will " not be given until fourteen days after the issue of the Minute, " except in cases of special urgency. The existing practice of " requiring Treasury assent and notification in the Appropriation " Account of all such gifts (of whatever size) remains unchanged."

It appears to the Committee that this proposal will sufficiently secure the object for which they have contended.

It will be noted that under the procedure proposed it is intended to maintain the condition that Treasury assent shall be obtained to each gift, and as the gifts will continue to be noted in the Appropriation Account they will also come before the Public Accounts Committee for review. In these circumstances the Committee informed the Treasury that they approve of the procedure proposed and of its immediate introduction.

My Lords have taken steps to place in operation the decision now confirmed by the Committee as to authorization of gifts of public stores. (Treasury Circular of 25 May 1923, No. F. 4681/01).

Special Advances to Contractors.

86. Under powers defined by the Public Accounts Committee in 1890 (Fourth Report, para. 6.) after exhaustive consideration and since exercised, Departments are allowed, in what are known technically as ' special cases ', to make advances to contractors, which are not claimable under the specific conditions of their contracts. The object of this is to avoid the necessity of surrendering at the end of a financial year money provided in the estimates for that year, and not allowed for in the Vote for the succeeding year. These special cases must satisfy conditions which have been rigidly defined, and were set out in paragraph 24 of the Report of last year.

In that paragraph the Committee of 1922 recommended that, as an invariable rule, the advances in such special cases should be limited to 80 per cent. of the total value of the work done. We are glad to learn that this recommendation has been accepted.

Two further questions connected with these advances have come to our notice.

(a) In certain cases in which special advances of this character had been made by the Air Ministry it was noticed that, when payment was made for the goods delivered under the contracts, only that proportion of the advances allotted to a particular delivery was abated from the amount of the claim in respect of it. It was represented to the Air Ministry by the Comptroller and Auditor General that, in cases where contractors had received general advances not due under their contracts, no further payments should be made until invoices fully covering the advances have been received and fully certified. The Committee agree with the view taken by the Comptroller and Auditor General as to the correct procedure and they learn that in the case of the Air Ministry it was only departed from owing to an oversight.

(b) The Committee of 1890 accepted the view that in the special cases in question interest would not be chargeable to the contractor on these advance payments made for reasons of public convenience. The present Committee is informed that this practice has been uniformly followed, but they see no reason why the contractor should not be required to allow to the Department concerned some discount or interest on any sums so paid, though not necessarily the full rate that he would pay in the market for temporary accommodation, and they suggest that a stipulation to this effect might, where necessary, be introduced into future contracts.

Advances have been made to contractors, which are not claimable under the specific conditions of their contracts, at the close of the financial year, in cases which fulfil the following conditions :—

(*a*) *although the instalment is not due, the advance has been really earned;*

(*b*) *the work done, for which the contractor cannot claim payment at so early a date, is work which has not been provided for in the Estimates of the following year, but formed part of the authorized programme of the current year, and has in that year been provided for by a grant from Parliament;**

(*c*) *the work done and the materials used are capable of identification on the premises of the contractor as having virtually become the property of the Crown.*

* See also T.L. 26 September 1889 at p. 230.

My Lords have granted to the Lords Commissioners of the Admiralty, to the Army Council, and to the Air Council, power to make advances of this character provided that the amounts advanced do not exceed 80 per cent. of the value of the work done, but they do not propose to extend this authority to other Departments.

*With regard to the question of charging interest on these advances, my Lords note the views of the Committee. They agree that it is possible that contractors who receive these advances would normally be prepared to accept the payments under discount, not necessarily at the full market rate. Before, however, coming to a final decision on the subject, they would be glad to receive the observations of the Service Departments, and in particular their opinion as to whether a stipulation to this effect could be embodied in contracts, as suggested by the Committee. It might be possible to negotiate with suitable contractors some days before the end of the financial year a rate of discount to become operative in the event of special advances being made.**

APPENDIX No. 20 TO P.A.C. REPORTS, 1923.

TREASURY MINUTE, dated 1 January, 1923, regarding the audit of certain accounts by the Comptroller and Auditor General, including those under Section 3 of the Exchequer and Audit Departments Act, 1921 (11 & 12 Geo. 5, c. 52).

My Lords read Section 3 of the Exchequer and Audit Departments Act, 1921, worded as follows:—

> 3.—(1) The Comptroller and Auditor General shall examine, if so required by the Treasury and in accordance with any regulations made by the Treasury in that behalf, the accounts of all principal accountants and any other accounts, whether relating directly to the receipt or expenditure of public funds or not, which the Treasury may, by minute to be laid before Parliament, direct.
>
> (2) The Comptroller and Auditor General shall examine any such accounts so required to be examined by him as aforesaid with as little delay as possible and when the examination of each account has been completed shall sign a certificate to the account recording the result of the examination, and a copy of the account so certified shall be sent to the accountant.
>
> (3) If in the course of any such examination any question arises between the Comptroller and Auditor General and the accountant, it shall be referred to the Treasury, whose decision thereon shall be final.
>
> (4) A list of all accounts so certified shall be submitted by the Comptroller and Auditor General to the Treasury not later than the first week in February and the first week in August in every year.

In this connexion my Lords have found it necessary to review the present procedure in regard to the examination of several different classes of accounts which have hitherto been audited by the Comptroller and Auditor General either under certain statutory requirements or in accordance with agreements reached between that officer and their Lordships.

The accounts may be dealt with under classes as follows:—

1. Accounts rendered in accordance with statutes which direct that the accounts shall be audited by the Comptroller and Auditor General. In certain cases, the statutes add that the audit shall be conducted in manner provided for the examination of appropriation accounts; in others, the scope of the audit is left to his discretion. A schedule of cases which fall within this classification is appended

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* See further P.A.C. 2. 1924. 18 at p. 674.

to this Minute (Schedule 1).* The statutes governing the audit of these accounts do not impose upon their Lordships the duty of determining the nature of the audit to be conducted by the Comptroller and Auditor General.

2. Accounts rendered in accordance with statutes which lay down that audit shall be carried out in such manner as the Treasury may direct. A schedule of accounts falling within this classification is attached to this Minute (Schedule 2);* in regard to the examination of these accounts, my Lords will be content that the Comptroller and Auditor General shall apply such examination as he considers desirable, having in view the directions as to audit of Appropriation Accounts given by Section (1) of the Exchequer and Audit Departments Act, 1921.

3. Accounts of Grants in Aid. My Lords propose in future that where it is desirable or convenient that the audit of expenditure from a grant in aid should be undertaken by the Comptroller and Auditor General, the notes to Parliamentary Estimates shall show that such audit is contemplated. No further directions will then be necessary.

4. Accounts wholly within the conditions of Section 3 of the Act stated above. A schedule of these accounts is attached to this Minute (Schedule 3).* In regard to these accounts, my Lords desire that the Comptroller and Auditor General shall carry out an examination similar to that applied to Appropriation Accounts under Section (1) of the Exchequer and Audit Departments Act, 1921, but that in carrying out such examination, the Comptroller and Auditor General shall observe any special conditions which my Lords may from time to time desire to impose in relation to all or any of such accounts. So far as concerns the accounts referred to in the schedule attached to this Minute, the special conditions will be those which have been laid down in earlier Minutes of their Lordships, in so far as those conditions remain applicable, having regard to the terms of Section (1) of the Exchequer and Audit Departments Act, 1921.

5. There are in addition a certain small number of accounts either relating to Government grants or to the operations of quasi-Government departments which by agreement are audited by the Comptroller and Auditor General. In regard to such accounts, my Lords desire that arrangements hitherto in operation shall continue. They may from time to time request that the Comptroller and Auditor General shall undertake the examination of other similar accounts and in the event of his undertaking to do so, the conditions under which the examination is performed will be subject to agreements made at the time the work is undertaken. My Lords understand that in the examination of these accounts the Comptroller and Auditor General is prepared to be guided generally by the conditions of Section 1 of the Exchequer and Audit Departments Act, 1921.

6. My Lords consider also in this connexion the accounts of the National Debt Commissioners, which form a composite group of accounts falling into one or other of the classes covered by this Minute, but are not specifically named in the Schedules hereto. In many of these accounts an important function of the Comptroller and Auditor General is examination of the type prescribed by Section 4 of the Exchequer and Audit Departments Act, 1921, which provides:—"Stock or store accounts shall be kept in all "cases where, in the opinion of the Treasury, the receipt, "expenditure, sale, transfer or delivery of any securities, "stamps, provisions, or stores the property of His Majesty in any "Government department is of sufficient amount or character "to require the keeping of such accounts, and the Comptroller "and Auditor General shall, on behalf of the House of "Commons, examine any such accounts so required to be kept in

* The Schedules have not been reproduced.

"order to ascertain that adequate regulations have been made for "control and stocktaking and that the regulations are duly enforced "and that any requirements of the Treasury have been complied "with.

"The Comptroller and Auditor General shall report to the House "of Commons the result of any such examination."

It is unnecessary, in view of the provisions of this Section and of the several special statutes governing certain of these accounts, that my Lords should exercise any duty in determining the nature of the examination to be applied by the Comptroller and Auditor General to the stock transaction of the National Debt Commissioners, but so far as audit of the cash transactions in the various accounts of the Commissioners is not regulated by special statutes, my Lords desire that the Comptroller and Auditor General will apply to those cash transactions an examination similar to that applied to Appropriation Accounts under Section (1) of the Exchequer and Audit Departments Act, 1921.

SECOND REPORT, 1924. H.C. 138.

Treasury Minute, 1 December 1924.

PAYMENT FOR TELEGRAMS AND TELEPHONES.

12. As from 1 April 1922 the practice was introduced of requiring Government Departments to pay the Post Office in cash the cost of telegrams sent on their behalf, and provision was made with this object in the Estimates for the several Votes. The Accounts before your Committee show that the expenditure of the Departments on telegrams on the new basis fell considerably short of the amounts provided for in the Estimates. The estimated requirements of each Department were calculated by the Post Office on the basis of the records kept of the services performed in the past for each Department, after making due allowance for the trend of expenditure upwards or downwards which experience suggested. We think, then, that these Estimates were as accurate as circumstances permitted, and that the under-expenditure revealed by the accounts of the past year exhibits a real economy effected by the change of practice. This conclusion is confirmed by the authorities of the Post Office, who have reported to the Treasury that the change resulted in a reduction of about 50 per cent. in the number of telegrams sent, and that the average number of words in each telegram was less.

Since 1 April 1923 Departments have been required similarly to pay for their telephone services. Your Committee will await with interest the results of this further change.

My Lords note the comments of the Committee. They will continue to watch the results of the closer control made possible to Departments by the system of payment for services rendered.

SPECIAL ADVANCES TO CONTRACTORS.

13. It will be remembered that, under conditions which have been rigidly defined by the Public Accounts Committee, Departments are allowed, in what are known technically as "special cases," at the end of a financial year, to make advances to contractors which are not claimable under the specific conditions of their contract, to avoid the necessity of surrendering money which has been provided in the Estimates for that year but has not been allowed for in the Estimates for the succeeding year. The Committee of 1923, in paragraph 86 of their Report,* pointed out that it had not been the practice to

See p. 671.

charge interest to the contractors on these advance payments made for reasons of public convenience, and expressed the view that some discount should be allowed to or interest charged by the Departments on any sum so paid, though not necessarily at the full rate that a contractor would be required to pay for temporary accommodation in the market. Your Committee are informed that the Treasury have conferred with the three Departments concerned, viz., the Admiralty, the Army Council, and the Air Council with regard to this recommendation, and that a conference convened to discuss the question reached the conclusions which are set out in Appendix No. 19 to this Report. Your Committee approve the proposed arrangements as there described.

My Lords note the approval of the Committee to the general arrangements proposed.

EXTRACT FROM APPENDIX No. 19.

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As the result of this correspondence, it appeared to the Treasury that a general policy of claiming discount on all "special" advances would be impracticable, but that it might be feasible in certain cases in which appreciable amounts were involved and an advance payment would be welcome to the contractor.

Accordingly they called a Conference on the question, at which the following conclusions were reached:

I. Provision should not be made in the original contract for discount on "special" advances.

II. Discount should not be claimed on such advances

(1) When goods have been completed and submitted for inspection, but the Department has not yet been able to arrange for inspection;

(2) when the fulfilment of the contract has been delayed by Departmental requirements or by reasons not within the control of a contractor (e.g., the failure of another contractor or a sub-contractor to complete to time), or where the contractor is in a position to raise a reasonable counterclaim on legal or moral grounds in connexion with either the contract in question or any other contract held by him for interest or compensation on account of delay or default by the Department;

(3) where the advance is inconsiderable in amount.

III. In cases not falling under (1) and (2) above, discount should be claimed on "special" advances of £5,000 or over to any individual contractor either under a single contract or under a group of contracts.

Departments should have discretion to negotiate the best terms of interest possible with a maximum of current Bank rates and a minimum of current short-term rates.

The period to be covered by the discount should be agreed at the same time with the contractor on a rough calculation in each case of the average period by which the normal payments are advanced.

(It was thought that this would usually be from a month to six weeks.)

The Service Departments will endeavour to secure discount in future under these conditions on "special" advances, and will take steps to open negotations with contractors sufficiently early to reach a settlement before 31 March.

It will, of course, follow that if the contractor declines to accept an advance subject to discount it will not be made, and it is possible that during the first year, at any rate, the new policy might involve

the surrender to the Exchequer of sums which would otherwise have been paid to contractors.

It appears likely, however, that owing to the completion of war settlements and the reduction of the Service Estimates, the occasions for "special" advances will be materially diminished in future.

Subject to the observations of the Public Accounts Committee, the Treasury propose to approve the arrangements indicated above.

27 May, 1924.

Civil Services and Revenue Departments.

Class I.—Office of Works.

Delay in commencing New Works.

15. It is the recognized rule that no new work of any magnitude shall be commenced without the previous sanction of Parliament, that is to say, until the Estimate providing for the service has been approved by a resolution of the House. Moneys granted by the House through a Vote on Account are not applicable to these services.

The Secretary of the Office of Works has represented to your Committee that in recent years the Votes for which he is responsible have hardly ever received the assent of the House before August, with the consequence that new building operations cannot begin until the autumn has set in, and he suggests that the result is direct waste of public money. Your Committee wish to draw attention to the evidence given with which they were much impressed and to express the hope that it will receive the consideration of the Treasury and of the authorities who are responsible for arranging the business of the House.

My Lords think that the disadvantages to which the Committee refer may be mitigated by closer co-operation—which they hope may be possible—with the authorities responsible for arranging Parliamentary business. They do not propose at the present stage to seek departure from principles of control at present in operation.

Class V., Vote 2.—Colonial Services.

Loans to Protectorates.

19. Your Committee notice that from time to time loans have been made to various Protectorates under the authority of Estimates voted by the House which left the exact terms of the loan (interest, sinking fund, etc.) to be fixed by the Treasury. As illustrations we may quote:—

	£
Nyasaland, 1922–23	42,000
Tanganyika, 1921–22	693,925
,, 1922–23	800,000
Southern Rhodesia, 1921–22	150,000
,, ,, 1922–23	150,000
Uganda, 1921–22	250,000
,, 1922–23	150,000

This procedure may, in the circumstances, be inevitable, but your Committee are not satisfied that proper machinery exists for informing Parliament distinctly of the terms prescribed by the Treasury when the appropriate moment comes. At present the facts can only be discovered by reference to the Statement of Advances which appears at the end of the annual volume of Finance Accounts.

Your Committee suggest that in all cases of this type a Treasury Minute should be presented to Parliament as soon as the terms are definitely fixed.

The Committee dealt in paragraph 19 of their Report with the notification to Parliament of the terms prescribed by the Treasury in regard to the interest on, and rate of repayment of loans to Protectorates made out of Votes, and suggested that a Minute be presented to Parliament whenever the terms are fixed. My Lords desire that such a Minute should be presented in any such cases as may arise in future; and will look to the Colonial Office to provide any necessary information for this purpose.

CLASS V., VOTE 3.—MIDDLE EASTERN SERVICES.

Form and Scope of Estimate.

21. The Public Accounts Committee of 1923, in paragraph 28 of their Report, recommended that in future the Vote for the Middle Eastern Services should be confined to those items of expenditure which are directly controlled by the Colonial Office, and that all military expenditure connected with the region should be provided in and charged finally against the Votes for Army or Air Services, as the case may be. Your Committee has heard further evidence in regard to this question, and they understand that in the view of the Treasury the time has not come when it can be said that the advantages which were thought likely to follow from the present practice have disappeared. In these circumstances your Committee do not wish to press the proposal.

My Lords note the comments of the Committee as to the form of Estimates and Accounts.

POST OFFICE.—TELEPHONE CAPITAL ACCOUNT.

Payment in Local Loans Stock.

24. The Committee have inquired into the circumstances in which the Post Office entered into an agreement to pay in Local Loans stock for the site of a telephone exchange. The purchase price of this site was agreed between the Post Office and the Vendors (a City Company) at £7,000, but before any binding agreement had been concluded the Company stipulated that the payment of the purchase money should take the form of a transfer of Local Loans stock sufficient to secure them the income which they were then obtaining from the property. The stock so required was of a nominal value of £13,500. As the site was essential for the purposes of the Post Office, the Postmaster-General accepted this condition. The legal negotiations in regard to the transfer were, however, unavoidably protracted and the purchase was not completed until two years later. By that time the cost of the Local Loans stock in question had risen to £8,893 2s. 6d., being £1,893 2s. 6d. in excess of the value of the stock at the time when the original stipulation was made. The Committee were informed that the Post Office completed this arrangement with extreme reluctance in the belief that no alternative course was open to the Department. Both the Treasury and the Post Office agree with the Committee that this form of transaction is undesirable as being no more than a speculation, and the Committee are assured that any transaction of this kind will not be repeated except in circumstances of extreme necessity, and then only with the express concurrence of the Treasury.

ARMY ACCOUNTS.

New Form of Account.

26. The Public Accounts Committee of 1923 in paragraph 65 of its Report referred to the appointment of a Departmental Committee under the Presidency of General the Hon. Sir Herbert Lawrence.

Its terms of reference were: " To inquire into the system of " administration of, and accounting for, Army expenditure, and into " the use of Accounts for the purpose of control, and to report " what changes, if any, consistent with the requirements of Parlia- " mentary accounting, are desirable in the interests of economy and " efficiency."

The report of this Committee has now been presented to Parliament,* and on 17 June last the Secretary of State for War announced in the House of Commons that: " The Army Council have decided, with the " concurrence of the Treasury, to adopt the two principal recommenda- " tions on which General Lawrence's Committee were unanimous, "namely, the amalgamation of the Royal Army Pay Corps and the " Corps of Military Accountants, and the continuance of the new " scheme of cost accounting, subject to an investigation as to the " possibility of improvements and simplification with a view to " economy in its working."

To give effect to this decison the Army Council propose to appoint one or two (Q. 6592) further Committees whose task it will be to go into practical details as to the scope of cost accounting and the question of its practical application.

27. Your Committee do not wish in any way to anticipate the result of these investigations. We think, however, that it is permissible for us to indicate how far it may be possible for the Public Accounts Committee, with the assistance of the Comptroller and Auditor General, to scrutinize the results disclosed by the accounts.

28. During the last two years the working of the new system as an instrument of economy has been obscured by general reductions made in pursuance of Government policy as the result of the recommendations of the Geddes Committee, but even apart from this, it must always be very difficult to earmark in £. s. d. the savings which have been effected by the change and can be set off against its cost. We are, however, informed that in an increasing number of instances questions have been raised and economies have been effected under the new system of accounts which probably would not have been made under the old.

29. As it appears to us, the general advantages of this system of account must be looked for in, and its continuance must be justified mainly by, the prompt and effective use made within the Department of the results which it discloses. The Comptroller and Auditor General informs us that his cash audit is in no way affected by the new system and continues exactly as before. He has added a running test of the cost accounts as the result of which he has been able to raise certain criticisms, which we are glad to hear from the Accounting Officer have been constructive. But it is clear from the Report of the Comptroller and Auditor General and from evidence given before us that he is in this difficulty, that the answer to many of the questions which may be raised by the cost accounts (and these, to our mind, the most important involving the largest expenditure) must depend, not on considerations which can be measured in terms of money or by financial units, but on general considerations of military necessity to which accounting must be subordinate. Your Committee experience precisely the same difficulty in considering this Account: we proceed to give a few illustrations.

30. The Account of the Mechanical Transport Companies gives their gross cost in the year 1922-23 as £950,000. Of this sum £400,000 has been charged off as " services rendered to units and

* Cmd. 2073.

establishments," leaving some £550,000 unallocated. These figures suggest that for less than half their time, Mechanical Transport Companies were employed in rendering services to individual units to which commercial value may be attributed. The balance of £550,000 represents the cost of maintaining these companies as military units ready for military emergencies. Incidentally we asked in connexion with these companies, whether any comparison had been instituted between the cost of motor transport in the Army and the cost of the fleets maintained by big commercial firms, of which detailed statistics have been published in the Press. We are informed that, while such items as consumption of fuel and so forth are closely scrutinized, any general comparison between the cost of maintaining, say, 3-ton lorries for military requirements and the commercial user of the vehicles maintained and run by private firms completely breaks down.

31. Similar difficulties arise in the case of Army Hospitals, where reasons of general policy may require that separate hospital treatment should be provided for different ranks, or that a large reserve of equipped beds be maintained, as at the Royal Herbert Hospital at Woolwich where 502 beds were equipped, although the highest number occupied at any one time in the year was only 309.

32. Again, the working expenses of the various Army Depots, analysed in detail under Head III of the Account, show wide variations as between the several services in the ratio of direct labour to supervision and administration. Thus, in the Ordnance Depots the Administrative and Supervisory Staff represents 18·07 per cent. of the total cost, and direct labour 36·68 per cent. For the Engineer Store Depots the corresponding figures are 46·73 per cent. and 29·09 per cent. On inquiry, however, these variations do not readily lend themselves to criticism, except within the War Department, owing to the different circumstances of the depots, e.g., at one depot clerical and accounting work may be concentrated, but the depot may not handle all the stores for which it accounts.

33. These and other illustrations brought before us lead us to the conclusion that while the new form of account does direct attention to a number of points which would otherwise escape notice it does not lend itself to effective criticism except by those who are in intimate touch with military administration and military policy. So far then as this Committee is concerned we should not object to a simplification either of the account itself, or of the process by which it is constructed.

34. Your Committee learn that during 1922-23 further progress was made in the development and standardization of the detailed accounts: and that speaking generally the accounting has been a great deal better than before. Still, the account is by no means perfect yet.

Thus: The accounts of the Armies of the Rhine and Constantinople which involved approximately 13 per cent. of the total net expenditure were not costed locally and the charges for these areas have been arrived at by the method of proportional allocation: the accounts suffer from the difficulty of securing adequate valuations on which to base charges in respect of depreciation and the absence of published prices for certain classes of stores consumed: and the examination of the Comptroller and Auditor General revealed a number of instances of incompletenesss and inaccuracy.

The valuations of fixed assets and of rental values are still very approximate and as will be seen from the table on pp. 124-5 of the account by far the greatest portion of the stocks in hand at 31 March 1923 was still unvalued. The value there assigned to classes of

commodities for which the initial pricing has been completed is just over £4,000,000, while the uncompleted classes appear at a round sum of £100,000,000.

It is difficult to establish from this particular table any relation between the total stock and the consumption, etc., of Army stores, and this difficulty is increased by the circumstance that the Army Council have not yet decided the final standard of War Reserves. Your Committee trust that an early decision will be reached on this very important question.

With regard to the Committee's comments on the form of the Appropriation Account for the Army Vote, their Lordships' Officers have already discussed with the officers of the Army Council suggestions put forward with the object of simplifying the account, and showing more clearly the results achieved. My Lords now await the further recommendations which they assume the Council will make after receiving reports from the Committees which are now considering certain aspects of accounting work in Army Departments. Their Lordships have acquiesced also in the question of valuation of stocks being reserved pending the reports of War Office Committees.

Trading Accounts.

Origin and Purpose.

48. The Public Accounts Committee, in previous Reports, have outlined the origin and developments of the practice of preparing "Trading Accounts," i.e., accounts which attempt to record the complete cost of various activities of Government Departments in a form similar to that usually adopted in analogous commercial undertakings (see Third Report, 1920, paras. 1-6, and Third Report, 1921, paras. 39-44). Certain accounts of this kind were prepared even before 1914, but the necessity for an extensive use of accounts in this form arose during the war in connexion with the war services undertaken by His Majesty's Government, which fell, broadly speaking, into four classes:—

(*a*) The supply and control of foodstuffs and materials.

(*b*) The restriction of enemy supplies.

(*c*) The increased production of food supplies in the United Kingdom.

(*d*) The maintenance of shipping and freight facilities.

The war services have disappeared, or are disappearing, from the accounts, but the experience gained in connexion with them has suggested that this particular form of account should have a wider application and be used, in suitable cases, as a supplement to the cash Appropriation Accounts, to record the outcome of transactions which are conducted as part of the normal peace activities of Government Departments.

49. This policy received statutory endorsement by Section (5) of the Exchequer and Audit Departments Act, 1921, which directs that there shall be prepared in each financial year in such form and by such Government Departments as the Treasury may from time to time direct or approve Statements of Account showing the Income and Expenditure of any shipbuilding, manufacturing, trading, or commercial services conducted by the Department. The section further directs that these accounts shall be audited by the Comptroller and Auditor General on behalf of the House of Commons, and be presented to Parliament.

50. It may be well to emphasize the fact that the implication of the word trading in connexion with these accounts is somewhat misleading. The object of a trading undertaking, in the ordinary sense of the term, is to obtain a profit on the undertaking or a fair return upon the capital invested. In the case of the public undertakings to which the Trading Accounts relate, the element of profit, if present at all, has been a subsidiary consideration. In some cases the object of the transactions has been at most to supply certain commodities to the community as nearly as possible at cost price. Other accounts (and these, indeed, form the majority of the accounts which have come before the Committee) relate to services which have been undertaken solely by way of experiment or research, or in pursuance of some general measure of public policy, e.g., Land Settlement.

51. It should also be realized that the Trading Accounts, which are intended to supplement the Cash Appropriation Accounts, contain certain entries, e.g., interest on capital, and insurance, which are statistical in that they do not represent any transactions in the cash accounts of the Departments concerned. None the less, in the opinion of the Committee, they do attain the purpose which they are intended to fulfil, that is, to exhibit as nearly as possible in the commercial form the total cost of any given set of operations.

53. Turning to the Accounts for the two years 1920–22 the Committee notice that complete uniformity has not yet been attained as regards the basis on which charges in the Account should be calculated. In some cases no debit had been raised for interest on capital, etc., etc. In others, insufficient allowance has been made for administrative expenses or overhead charges. These defects are, however, mainly confined to the accounts which were instituted during the war period and before any general directions were given by the Treasury as to the basis on which they should be prepared. The more recent Accounts have been prepared on a uniform and coherent plan, following the directions given by the Treasury Circulars of 26 February and 20 June 1921 (see page vii of Cmd. 1368 and Appendix No. 32 to Public Accounts Committee's Reports, 1921).

My Lords will continue their efforts to secure uniformity in the form of accounts, and they trust in this connexion to have the co-operation of Departments.

Accumulated Charges for Interest not covered by Profits.

54. The Trading Accounts for the different undertakings contain, under Treasury instructions, a charge for " Interest " representing simple interest on the net cash advances from the Exchequer and on administrative expenses, while the Balance Sheets record the accumulated liability under this head as " Interest Reserve."

The undertakings do not actually make any payments of interest to the Exchequer but the entries are included in order that the accounts may show to the public and to Parliament what has been the total cost of the particular concern to the public Exchequer. The result is to diminish the apparent profit or more usually to increase the loss shown by the account, and the question has been raised, notably in connexion with the accounts relating to Land Settlement, whether the charge for the accumulated interest should not be eliminated from the account and written off. In the view of the Treasury, the accounts, as prepared on the present basis, represent a complete record of the cost of the operations to which they relate. They are compiled on a basis of fact and the Treasury strongly deprecate the periodic writing down of the

capital invested in the business and periodic revaluation of the assets. While the witnesses who gave evidence on behalf of the Treasury agreed that sooner or later, when some degree of stability has been obtained, it might be necessary to write off charges for interest in arrear and to write down the capital, they represented strongly to the Committee that their policy in this matter must be very conservative and that they should only depart with great caution from a form of account which, as far as possible in the circumstances, records actual cost. In the circumstances your Committee do not suggest that there should be any immediate modification as regards these items and they are content to leave it to the Treasury to determine the moment at which it may be appropriate to relieve the accounts of these accumulated charges for interest. Such an opportunity might perhaps present itself in 1926, when, as stated below, there will be a financial settlement between the Ministry of Agriculture and the County Councils in regard to the Small Holding undertakings carried on by the latter.

My Lords note that the Committee concur generally in the views which they have expressed in regard to writing down capital engaged in " trading " operations, and the amounts standing in these accounts as a liability for interest, and they will, as suggested by the Committee, consider in due course what relief, if any, may be allowed in accounts.

Rate of Interest to be charged.

55. Up to now the interest charge has been calculated at the Bank of England rate current at the time when the original capital was issued to the undertaking by the Treasury, except where capital was specifically raised for the service, in which case the Trading Account has been debited with the actual rate of interest paid. This practice has resulted in certain anomalies and we understand that in preparing the accounts for the year 1923–24 the interest charges are to be re-assessed on the following basis: as regards (a) borrowings for capital expenditure the rate of interest shall be that fixed for local loans (minimum rates); as regards (b) borrowings for working expenses the average Bank of England rate for the financial year will be adopted.

STATIONERY OFFICE.

Government Printing Works.

60. Your Committee have examined the accounts up to 31 March 1922 of the printing undertakings now conducted on behalf of H.M. Government. A Trading Account and a Balance Sheet have been prepared for each of the four different establishments conducted by the Stationery Office, viz., the Foreign Office Press, the Hare Street Printing Works, the Harrow Printing Works, and the Kingsway Press.

Your Committee are informed that a special Committee appointed by the Treasury is now considering the general question whether or not the Government printing press or presses should be continued, and that this Committee has recently appointed a sub-Committee to consider this question exclusively from the point of view of the results disclosed by the Accounts. In these circumstances, and as it is natural to suppose that the sub-Committee will have access to accounts completed to the latest possible date, your Committee think it best to abstain from detailed comment on the accounts which they have had before them. Further, the workings of the presses admittedly suffered from difficulties in the earlier and experimental stages, and a review of the Accounts to 31 March 1922 does not enable your Committee to arrive at a true view of the results of the undertakings.

In these circumstances, your Committee will confine themselves to making the following observations. First, as indicated above, the operations of the different Presses have been shown in the Account before us as separate concerns, although the distribution of the general work as between Hare Street and Harrow has been settled by considerations of general convenience and without regard to the profit of the particular branch. Your Committee is of opinion that in future there should be one amalgamated Balance Sheet for the whole of these undertakings, though separate Trading Accounts should continue to be kept in respect of each. We understand that this course will be adopted.

Secondly, it appears from the evidence before your Committee that the Accounts relating to the Harrow Works contain no charge for interest on working capital, this charge having been offset by a general credit on account of the trading profits made which have remained in the business, and the Comptroller and Auditor General is not altogether satisfied with the course which has been adopted.

The Committee have requested the Comptroller and Auditor General to consult with the Treasury in regard to the principles on which these items should be dealt with, and we shall hope to hear next Session that an agreement has been reached.

My Lords have given instructions for an amalgamated Trading Account and Balance Sheet to be prepared in respect of all the Printing Works under the control of the Stationery Office, in addition to separate Accounts for the several undertakings, and they are in consultation with the Comptroller and Auditor General with a view to reaching a decision as to the interest charges in accounts.

Note.—The Comptroller and Auditor General, in his report on Trading Accounts for the year 1923-24, stated that the following rules had been laid down:—

(i) Interest to be charged on capital advances.

(ii) A depreciation reserve fund to be maintained out of profits, any moneys expended on replacement or obsolescence to be regarded as taken from this fund.

(iii) This reserve fund, although regarded as deposited with the Exchequer, to be available for providing working capital to the factories. Consequently, interest will not be charged in the accounts on working capital, nor will it be credited on the amount of the reserve fund. Any profits which arise after providing for the reserve fund will be regarded as available for distribution, i.e., in this case, for surrender to the Exchequer. See page vii, H.C. 75, 1925.

BOARD OF TRADE.

Treasury Sanction required for Sale on preferential Terms.

61. Under the terms of the Treaty of Versailles, Germany is under an obligation to hand over certain dyestuffs as part of the British share of the total reparation deliveries. The price at which these deliveries are credited to the British Account is fixed by the Reparation Commission, and the sale in this country of the dyes so supplied is under the control of the Board of Trade.

The attention of the Committee has been called to the fact that a certain block of these dyes was sold by the Board of Trade to an agency on behalf of an association representing the bulk of the colour users in this country at prices which appear to have been lower than could have been obtained from a willing purchaser in the market at the time. In fixing the price on this favourable basis, the Board of Trade were influenced by a desire to enable the Association to recoup losses which it had previously incurred in respect of certain purchases which it had

made in the open market in Germany to supplement the quantity of dyes available under the Treaty, and the question was not referred by the Board of Trade to the Treasury. The Board of Trade have justified their action on the ground that the object of obtaining dyes from Germany was not a matter simply of Reparations but was a trade deal for the benefit of traders here. The Treasury, however, did not accept this view and represented that while the arrangement was certainly an arrangement under the Treaty for the benefit of a particular trade, the Board of Trade were not entitled to dispose of these dyes to the trade on preferential terms and so benefit the trade at the cost of the general taxpayer.

The Committee are not in a position to express any opinion as to what was the intention underlying this provision of the Treaty, but they agree with the view of the Treasury, that no Department is at liberty to dispose of commodities which it holds for the public at a price which is not the best that can be obtained from the general public without, at any rate, the previous authority of the Treasury.

The Board will note that the Committee agree that commodities held for the public should not be disposed of at a price which is not the best that can be obtained from the general public without, at any rate, the previous authority of the Treasury.

FIRST REPORT, 1925. H.C. 48.

No Treasury Minute.

SPECIAL CASE OF EXCESS ON GRANT IN AID SUBHEAD.

Your Committee have to report that the Appropriation Account of the Vote for the Ex-Service Men, Ireland, Grant, 1923–24 (Civil Services Class VI, Vote 14), shows that an excess of £94,715 3s. has been incurred under Subhead B.2, which provided a Grant in Aid for the Irish Sailors and Soldiers Land Trust, this amount being the difference between the amount issued, namely, £690,115 3s. and the grant, which is shown on the account as £595,400.

An excess on a Grant in Aid cannot be met by the application of savings from other subheads under the powers of virement given to the Treasury, and must in ordinary circumstances be made good by an Excess Vote, and by Treasury directions a statement of excess has been prepared and submitted in respect of this item for the consideration of your Committee.

The circumstances of this case are, however, quite exceptional. The grant was required for the purpose of providing cottages for ex-service men in Ireland under the terms of the Irish Land (Provision for Soldiers and Sailors) Act, 1919. This service was carried out first by the Local Government Board, Ireland, and later during 1922–23 by the Irish Office. Under the terms of the Irish Free State (Consequential Provisions) Act, 1922, Section 3, the Irish Sailors and Soldiers Land Trust was set up to take over the responsibility for the service, and the statute provided that grants from British Funds might be made to the Trust within a total limit of £1,500,000. When the estimate for 1923–24 was prepared it was assumed that this Trust would operate from 1 April 1923, and provision was made and voted by Parliament under Subhead B.2 of the original estimate for the year for the issue to that body of £1,150,000 as a Grant in Aid. Subhead B.1 provided a nominal grant of £10 for remanet expenditure under previous arrangements. Delay occurred in setting up the Trust, and it became necessary to continue the work under the old arrangements during the greater

part of 1923–24. In January 1924 a Supplementary Estimate was presented to Parliament, which, amongst other things, increased the original provision under Subhead B.1 of the Vote to £550,000, and at the same time set off against the additional grant required anticipated savings of £554,600 on Subhead B.2 (the Grant in Aid), which were expected to be realized owing to the delay in setting up the new Trust.

Ultimately £359,806 15s. 10d. was spent under Subhead B.1, and £660,115 3s. was issued under Subhead B.2 Grant in Aid, the latter sum being £489,884 17s. less than the Grant in Aid voted on the original Estimate, but £94,715 3s. in excess of the reduced amount indicated by the Supplementary Estimate.

Your Committee attach great importance to the maintenance of the general rule, but they are of opinion that in the special circumstances of this particular case an Excess Vote is not required, regard being had to the statutory provision of £1,500,000, the original Estimate of £1,150,000, and the special circumstances created by the intimate connexion between the two subheads B.1 and B.2.

SECOND REPORT, 1925. H.C. 196.

Treasury Minute, 1 January 1926.

Overhead Abatements from Estimates.

3. The Public Accounts Committee of 1924, after expressing the view that Departments generally had estimated in full for existing services, and had made excessive provision for contingencies together with insufficient allowance for the delays which, as experience shows, invariably arise in carrying out departmental works or in obtaining deliveries from contractors, pointed out that in connexion with the Navy Estimates for 1924–25 it had been decided to discount in advance possible causes which delay the progress of expenditure by an overhead cut of £3,000,000. Your Committee have learned with much interest that this measure was justified by the result. It is satisfactory to note that the same principle of an overhead cut, i.e., a lump sum deduction superimposed on a normal allowance for the difficulties of one kind or another which are found to impede progress on approved services, was applied to the extent altogether of £500,000 in the Air Estimates for 1925–26 under Votes 3 (Technical Equipment) and 4 (Works). Similar overhead reductions were made in the Estimates for the years 1923-24, 1924-25 and 1925-26 of the group of Votes administered by the Commissioners of Public Works. Your Committee trust that this practice will be continued to the fullest possible extent.

Their Lordships agree with the Committee that the practice of making overhead abatements from estimates as an allowance for contingent savings, has been justified by the results achieved, and it is their intention to develop this practice wherever possible.

Parliamentary Control of Works Votes.

5. The question which was put before the Public Accounts Committee last year, viz., whether closer approximation between estimate and result could be secured if certain of the Works Votes now separate were amalgamated, has been considered. In regard to this the Treasury point out that by the drastic measures taken in recent years the pre-war standard of accuracy has been re-established, or will very shortly be so, without the necessity for making so revolutionary a change as the amalgamation of a number of separate Votes. If, however, it is

desired to go further and aim at having these Estimates correct, say, to within two or three per cent., then in their view the only method of attaining that result would be an amalgamation of Votes on a large scale. Such an amalgamation would obviously give to the Treasury greatly increased powers of virement, a result which, from the point of view of the House of Commons, appears to your Committee to be open to considerable objection. In these circumstances, your Committee recommend that the arrangement of the Votes administered by the Office of Works be left undisturbed.

As regards the special case of the Works Votes, it is clear that the necessities of Parliamentary control are better served by a division of expenditure among several Votes, though this fact undoubtedly makes it much more difficult to avoid proportionately larger surrenders in this case.

My Lords concur in the view of the Committee that it is not desirable further to amalgamate Works Votes.

Accounting Officers.

6. As will be remembered, it has long been the settled practice in the smaller Civil Departments that the head of the Department should be appointed Accounting Officer and answer, as such, for his Department to the Public Accounts Committee.

In 1920 the Public Accounts Committee accepted a recommendation of the Treasury that in the Fighting Services the head of the Department should similarly be Accounting Officer. The Committee of 1921 examined the question whether the same rule should be applied to the larger Civil Departments, and expressed the view that it was undesirable to make any further change at that time, especially as the arrangements concerning the Fighting Services Departments had not then been brought fully into operation (Third Report, 1921, Paragraphs 9–11).

7. The present Committee have reconsidered this question in view of the experience which has now been obtained, and they recommend that as a general rule the larger Civil Departments should be brought into line by the appointment of the Permanent Head of those Departments to act as Accounting Officer.

Since the broad statement of policy was made in 1920 *that my Lords would generally desire that the Permanent Heads of Departments should themselves be Accounting Officers, wider experience has been gained of the system as applied in many Departments, and they are glad to note that the Committee share their view of its advantages.*

Appropriations in Aid.

Treatment of Receipts in Excess of Estimate.

8. It has been customary for Parliament in voting supplies to allow the appropriation in aid of Parliamentary grants of sums received in ordinary course of business by Departments administering Votes, but the gross expenditure authorized by Parliament may not be exceeded even though receipts become available in excess of the sums which Parliament has authorized to be appropriated in aid of such expenditure.

In making up Appropriation Accounts it has hitherto been the practice, except in certain special cases such as token Votes, &c., to show in the body of the account as appropriated in aid of grants the full amount of the receipts taken in the ordinary course of business, even when their total has exceeded the limit specified in the Appropriation Act, and to describe the excess as " Surplus of Appropriations in Aid

realized," with the consequence that results shown in the accounts have been open to misconstruction by Parliament and by the public. In some cases in the past, where receipts have been exceeded not only the authorized amount of Appropriations in Aid, but also the gross expenditure, the Vote account has been made up in a form which shows the net expenditure as a minus quantity.

9. The Treasury have now directed that in future the sums actually shown as Appropriations in Aid in the body of an Appropriation Account shall not exceed the smaller of the two limits represented by (*a*) the gross total expenditure on the Vote, and (*b*) the sums authorized by Parliament to be appropriated in aid of the Exchequer grant. Where either of these limits comes into operation an explanatory note will be added to the account, showing the total receipts, the amount applied as Appropriations in Aid, and the amount which is payable separately to the Exchequer.

Your Committee consider that these alterations will make for clearness and remove certain misapprehensions which have been occasioned by past practice.

My Lords note the concurrence of the Committee in the directions which have been given.

National Insurance Contributions.

Supervision of Stamp Transactions.

10. The Comptroller and Auditor General has drawn the attention of your Committee to a type of fraud that has occurred in more than one Department, owing to failure to exercise adequate supervision over transactions in connexion with Insurance stamps. The Treasury have recently issued a circular on the subject reminding Accounting Officers that they must treat stamp transactions with the same care as if they were cash transactions, and must obtain certificates from a responsible officer that all amounts have been properly accounted for, frequent verification of balances of stamps being also applied.

Your Committee desire to emphasize the responsibility of Accounting Officers in this matter.

My Lords have drawn the attention of all Departments to the need for exercising the same care in transactions involving the use of insurance stamps as in cash transactions. (*Treasury Circular* 1C/1925, *dated* 23 *January* 1925.)

Ministry of Transport.

Motor Tax Account. Check of Fines received.

12. The fines paid in England and Wales under the Motor Car Acts and Roads Act amount to about £100,000 a year and are received partly at Metropolitan Police Courts, but mainly by Justices Clerks at Courts of Petty Sessions. Those received at the Metropolitan Police Courts are duly subjected to audit, but the Comptroller and Auditor General has informed your Committee that he is not satisfied that an adequate check is exercised over those received at Courts of Petty Sessions.

The Treasury are advised that no Government Department has power to prescribe any particular form of audit in these cases although, as your Committee are informed, the accounts of some of the Clerks are in practice audited by the County Auditors.

Your Committee consider that legislation should be introduced as early as possible in order to provide for a statutory audit of these accounts and that, in the meantime, steps should be taken to extend the existing voluntary arrangement under which some of these accounts are audited by the County Auditors.

To the Under Secretary of State, Home Office.

*I am * * * to ask that you will be good enough to bring to the notice of the Secretary of State for Home Affairs the comments made by the Committee * * * regarding the audit of fines received for the Motor Tax Account at Courts of Petty Sessions.*

Their Lordships' views on this matter are set out in Treasury letter No.F.8349, *of 2 July last, and they would again urge on Secretary Sir W. Joynson-Hicks the importance of making statutory provision at an early date for audit of the Accounts in question.*

CLASS II., VOTE 30.—STATIONERY OFFICE.

Stock of Paper.

14. The Appropriation Account shows that the stock of paper in the hands of the Stationery Office (excluding paper in the hands of contractors for printing) at 31 March 1924 was valued at £210,461 as against £258,965 at 31 March 1923. The Comptroller and Auditor General informed your Committee that he had endeavoured to ascertain how far this decrease in value was attributable (*a*) to the actual consumption of stocks, and (*b*) to revision of prices. He had, however, some difficulty in obtaining the figures. As the annual Estimates now provide for the estimated requirements of paper for each year, and show the extent to which it is proposed to meet them by withdrawals from stock, your Committee think it desirable that figures should be kept in such a form as will enable ready comparison to be made between the estimated and actual out-turn, provided this can be done without undue labour and cost.

15. This question leads naturally to the further and larger questions whether the Stationery Office records are kept in such a form as to facilitate to the fullest extent departmental control over consumption and what is the proper minimum stock to be kept, including paper at the works or in the hands of contractors for printing. Your Committee understand that the Treasury are investigating all these questions with the Stationery Office, and they will be glad to be informed of the result in due course.

To the Controller, Stationery Office.

My Lords have now received from you in a letter dated 18 November 1925, No. G. 28/111, a statement showing the value of stock held at 31 March 1925 (valued at the prices current at that date, and at the prices current on 31 March 1924), from which, in conjunction with stock valuations of earlier years, information is available as how far variation in value of stocks is due to variation in prices and how far to actual alterations in quantities in store. My Lords desire that similar statements should be appended in future to the Appropriation Account.

With regard to the more general question of Stationery Office records of stock held, my Lords have caused full inquiry to be made, and they are satisfied that the records maintained and the system of storage should afford effective control over consumption, and give adequate information as to minimum stocks to be maintained. As regards stocks of paper in the hands of contractors, certain changes in inspection and stocktaking methods have been made with a view to strengthening your control.

STATIONERY OFFICE.

Trading Accounts of Sale Offices.

34. These accounts are designed to show the trading results of the sales of Government publications conducted by the Stationery Office.

Your Committee suggest that their value would be enhanced if they were rearranged so as to show separately the profit or loss arising on the three separate branches of the business, viz., (*a*) wholesale issues to the publishing trade, (*b*) retail sales over the counter, (*c*) issues to Government or quasi-Government Departments for which payment is made.

To the Controller, Stationery Office.

My Lords would be glad to receive from you a report as to extending the scope of the Trading Accounts of Sale Offices in order to furnish more complete information as to the wholesale and retail transactions in regard to official publications.

Navy Appropriation Account.

Responsibility of the Accounting Officer for all Navy Accounts.

35. The Committee of Public Accounts, 1923, in paragraph 56 of their Report, commented on the fact that six different officers appeared to give evidence before them in regard to different branches of the accounts connected with stores, namely, the Directorates of Naval Stores, of Armament Supply, of Dockyards, of Expense Accounts, of Naval Ordnance, and of Victualling. They pointed out that the Navy was the only Department in the public Service in which the Accounting Officer did not undertake the sole responsibility of answering before the Committee all questions relating to the accounts, and they suggested that the time had come to review the question of responsibility for the accounts of the above-mentioned Departments. This recommendation has since formed the subject of correspondence between the Treasury and the Admiralty, which has been submitted to this Committee, (see Appendices No. 2 and No. 22 to the Report of 1924 and Appendix No. 27 to the present Report), but left them in some doubt how far the Admiralty were prepared to accept the recommendations made in 1923. The position of your Committee is simply that the Secretary for the Admiralty, as Accounting Officer, must answer to the Committee for all branches of the Admiralty accounts and accept responsibility for the store accounts in the same way as for cash. They are glad to have now received a positive assurance from the Accounting Officer of the Admiralty that he accepts full responsibility for all branches of the Admiralty Accounts, and will answer generally for them before the Committee. To avoid misapprehension it may be well to add that the Secretary of the Admiralty is at liberty to invite any technical officers to accompany him when giving evidence before the Committee, and that the fact that the Accounting Officer for the Admiralty will answer for all Accounts in no way absolves the technical heads of the several Departments of their responsibility for the matters entrusted to their charge, nor exempts them from liability to be examined by the Committee should the Committee so desire.

My Lords concur in the Committee's understanding of the responsibility of the Accounting Officer in relation to Admiralty Accounts, and of the responsibility of the technical heads of Admiralty Departments.

Grant in Aid of Fleet Air Arm.

36. Following on the recommendations of the Committee on the relations between the Navy and the Air Force (Cmd. 1938), it has been decided that a contribution should be made from Navy funds in respect of the cost of the Fleet Air Arm, this contribution taking the form of a Grant in Aid paid from Navy Votes to the Air Force and appropriated by the latter in aid of their expenditure. Provision for

this grant is made for the first time in the Navy Estimates for 1925, and has occasioned a slight modification of the Votes previously existing. The previous Navy Vote 4 for Civilians employed on Fleet services, which in 1924-25 amounted only to £181,200, has been amalgamated with Vote 1 (Pay), and the Vote thus set free has been utilized for the Grant in Aid of the Fleet Air Arm. These modifications have been approved by your Committee.

My Lords note the concurrence of the Committee in the manner of providing for the Grant in Aid of the Fleet Air Arm.

Payment to contractors in anticipation of the signing of a contract.

37. In 1905 the Admiralty gave an undertaking to the Public Accounts Committee that the practice of making payments to contractors in anticipation of the signing of contracts would be discontinued. (Paragraph 6, Fourth Report, 1905.)

At the request of the Treasury, the Admiralty have reported to your Committee that they have been obliged to depart from this undertaking in connexion with the manufacture of hydraulic machinery for the 8-inch guns of the new Cruisers, Kent class, now under construction.

It was felt essential that the manufacture of this intricate machinery should be begun last year, before the hulls were laid down, as otherwise the machinery would not have been ready for installation when the ships were ready to receive it. On the other hand, the design for the mountings was new, and though sufficiently far advanced to admit of manufacture being begun was far from complete; hence it was not possible for contractors to quote or the Admiralty to approve a price.

38. In these circumstances provisional orders were placed with two Armament firms, in advance of the settlement of terms or the signing of a formal contract, on the understanding that the work would be put in hand in accordance with the general outline of the selected design, and that the firms would concurrently proceed to develop that design subject to Admiralty approval of the detailed drawings. The price to be paid was left for negotiation until the firms should be in a position to submit quotations, and those quotations had been examined by the Admiralty costing experts, who have access to the books of the firms. Up to 9 July last, when the Accounting Officer gave evidence, the final quotations had not been received. Meanwhile, to assist the firms in financing the heavy outlay on this work, and so to avoid an ultimate increase in price, it was agreed to make advances to the two firms up to 80 per cent. of the value of material accumulated and work done. Your Committee were informed that the sums so paid up to 31 March last amounted to £123,873, and that further advances would probably be required.

39. Your Committee have been assured that this case is quite exceptional, and that the Admiralty have no reason to anticipate that there will be any further occasion to depart from the understanding arrived at in 1905, even in the case of gunmountings. Moreover, they learn with satisfaction that the position of the Admiralty is safeguarded by a subsidiary agreement designed to prevent any danger of the property in the undelivered results of the contractors' work being treated as assets of the contractors.

In all the circumstances of the case, your Committee acquiesce in the action taken.

My Lords note that the Committee acquiesce, in the case laid before them, in the payments made in respect of gunmountings before the signature of a contract. The Committee assume that there is no reason to anticipate that there will be any further occasion to depart

from the understanding reached in 1905, even in the case of gunmountings.

Having regard to the terms of the Admiralty letter No. C.P. 9055/25, of 18 April last on this point, my Lords would be glad to learn whether the Lords Commissioners of the Admiralty have found it possible to adopt a form of order which will constitute a binding contract and hence involve no departure from the 1905 pledge as regards future orders.

AIR SERVICES APPROPRIATION ACCOUNT.

Contracts placed without Competition.

45. It is the established practice, which has been repeatedly insisted upon by the Public Accounts Committee, that contracts for the public service shall only be placed after inviting competitive tenders, and that competition shall only be dispensed with in cases where the Heads of the Administering Department are satisfied that good grounds exist for this procedure (see Epitome of the Reports of the Public Accounts Committee, pages 515 and 521). In examining the accounts for the year 1923-24, the Comptroller and Auditor General observed that contracts for aeroplanes, seaplanes, and engines to a very considerable value were placed as the result of single tenders only. He, therefore, thought fit to draw the attention of the Air Council to this question and to ask whether they had considered or would consider the possibility of taking fresh measures to introduce or extend the principles of effective competition as regards the purchase of these supplies. The Air Council thereupon addressed a reasoned reply to the inquiry of the Comptroller and Auditor General, which has been submitted to your Committee (Appendix No. 23) and has been amplified in evidence. The Air Council have assured your Committee that this point has been continually under their consideration since the Armistice, and that they have constantly kept before them the desirability of introducing the element of competition whenever the circumstances permitted. Their considered opinion is, however, that under the conditions of aeronautical development obtaining up to the present the system hitherto adhered to has been both the most efficient and the most economical. Competition, indeed, even if practicable, would, in their view, have been more costly than the present system. At the same time the Council do not suggest that the present system does not need constant vigilance, or that it can be accepted, without change, as a proper permanent method. They have undertaken that the whole problem will be under continuous review.

46. It is the case that the Air Council have had to contend with great difficulties in introducing new services of this character (particularly as regards the use of designs which are the property of contractors) and your Committee accept with some reluctance the assurances which have been given to them on the Council's behalf. They must press the Air Council to keep the problem under review, and meanwhile to continue to make the fullest use of their practice of subjecting tenders for these supplies to a rigorous investigation by their own technical costing staff.

My Lords share the regret of the Committee at the absence of effective competition for supplies of aircraft and engines for the Air Service. They realize the difficulties with which the Air Council has to contend and they need not remind the Council of the need for the greatest vigilance in placing contracts without resort to tender or after tendering of a non-competitive nature. They concur in the need for the use of all possible checks on the reasonableness of prices quoted, including a full use of technical costing staff.

ARMY ACCOUNTS.

Abandonment of New Form of Account.

50. The Army Council have submitted for the consideration of your Committee a proposal to abandon the system of Army accounting which has been in partial operation for the last six years, and to revert to Estimates and Accounts similar in form to those of other Departments, prepared on a cash basis, but to supplement them by costed accounts (some continuous and some periodical) of certain establishments or branches of Army activity.

51. This is the most important question which has come before the Public Accounts Committee this year, or indeed for some years, and has received exhaustive consideration.

52. The proposals of the Army Council are explained and discussed in the memoranda appended to this report, viz:—

Memorandum by the War Office	Appendix No. 30.
,, ,, Treasury Officers of Account	Appendix No. 31.
,, ,, the Comptroller and Auditor General	Appendix No. 32.
,, ,, Sir Charles Harris	Appendix No. 33.

Oral evidence was taken at length on 21 and 23 July, and 8, 10, 14, and 15 December 1925, including evidence from His Majesty's Secretary of State for War, General the Hon. Sir Herbert Lawrence and Sir Charles Harris, who were good enough to give your Committee the benefit of their views.

53. The Estimates and Appropriation Accounts of the Army before 1919, and of all other Departments before and since, exhibited only the the sums which actually would come, or came in course of payment within the year. They took no account of liabilities outstanding at the beginning or end of the year, of the value of services rendered to or by other Departments, or of other elements of cost arising from direct cash payments. They did not include any valuation of Army stores, e.g., of the stocks of cloth held by the Army. Moreover, figures were sub-divided by Votes and Subheads according to the subject of the expenditure, largely irrespective of its object or purpose.

54. The Select Committee on National Expenditure, 1918, in its Seventh Report, which dealt with the form of Public Accounts, made certain recommendations which applied generally to all Departments, and are thus summarized at paragraph 42 of that Report:—

> "(*a*) The Cash Estimate and Account of the year should, "in respect of surrender, remain as at present, the surrender "being based upon the amount by which the sums which "actually come in course of payment during the year are less "than the total of the estimate of cash required.
>
> "(*b*) The estimated expenditure of the year, as shown in "the estimates, and the actual expenditure as disclosed in the "accounts, should be on a basis of income and expenditure "representing the actual cost of services rendered and stores, "&c., supplied for the service of the year.
>
> "(*c*) The accounts of all Departments should comprise "their total expenditure, including the services rendered by "other Public Departments, e.g., the Post Office, the Office "of Works, the Stationery Office, the rental value of Govern- "ment-owned buildings occupied, pensions paid, and pensions "liability in respect of pensionable servants.

" (*d*) The Estimates and Accounts should be grouped both " in their general scope and also in their details, to show " the objects rather than the subjects of expenditure, and with " carefully chosen units of cost.

" (*e*) That as far as possible there should be one compre- " hensive series of accounts only for each service of the State, " and the practice, which has grown up under the existing " imperfect system of cash appropriation under items which " convey no significance, of supplementing what has been " called the dissected cash book with subsidiary accounts and " by statements in Reports which profess to be accounts, should " be discontinued. The Accounts presented to Parliament should " be responsive to the Parliamentary Estimates of true annual " expenditure. They should be prepared in such a manner as " to provide in all their stages—Sectional, Departmental, Extra- " Departmental and Parliamentary—a control by means of units " of costs of which effective use should be made by comparison " of similar units under like conditions, both inside the Depart- " ment concerned and with other Departments of the State, " thus affording the facilities needed for effective criticism, not " by the massing of infinite details for the expert, but by the " attainment on broad lines of results which can be readily " appreciated."

55. That Committee further recommended that the form of Estimates and Accounts appended to their Report (which were prepared in accordance with their views) should be adopted forthwith for Army services.

56. The change thus recommended was made by the War Office with effect from 1 April 1919, and a completely new set of accounts was introduced simultaneously throughout the Army at home which aimed at showing in detail, when fully developed, the true cost under all items (cash, stores, services rendered, etc.) of every one of the units and establishments comprised in the Army.

57. To prepare these new accounts of individual units and establishments, which formed a completely inter-locking system in terms of money, a new Corps of the Army (the Corps of Military Account ants) was brought into being.

58. It was a great achievement to remodel at such short notice the whole form of Army Account, and it is not surprising to find that there were imperfections in the new form.

59. The new form of account was regarded as being only on trial, and up to the present has still been experimental (see, e.g., Sir Charles Harris at Q. 5938 of the evidence given before the Public Accounts Committee, 1923, where he said " This is the sort of information we " can lay before the administrative authorities; if the administrative " authorities will tell us how far this is useful it may be that we can " usefully expand it in some directions and it may be that we can " considerably simplify it in others . . . . The system of " accounts is not at all to be regarded as a finally developed system " which must be taken as it stands, for better or for worse. My " idea all through has been only to elaborate any feature of the " system to the extent to which it showed that it paid its way and " was worth while ").

60. The question, then, which the Army Council and your Committee have had to answer at the appropriate time is: How far are

these accounts useful or capable of being made useful for the purposes of administration and control of expenditure?

61. The Public Accounts Committee, so far, has not given a considered judgment on this question, as they did not consider that sufficient experience had been gained.

62. In 1922 the Secretary of State for War appointed a Committee under Sir Herbert Lawrence to inquire into the system of administration of, and accounting for, Army expenditure, and into the use of accounts for the purpose of control, and to report what changes, if any, consistent with the requirements of Parliamentary accounting, were desirable in the interests of economy and efficiency.

63. The main conclusions at which that Committee arrived are thus summarized at paragraph 61 of its Report, dated 23 October 1923 (Cmd. 2073).

> " (1) A proper system of accounting is necessary to the " efficiency of the Army. Such a system has been wanting in " the past.
>
> " (2) The new system inaugurated in 1919 should be carried " to its logical conclusion. Amendments may be required to meet " the special needs of the Army.
>
> " (3) A complete change in the system of administration " should be carried out from the War Office downwards, and " adminstrative responsibility and accounting should be decentra- " lized as far as individual establishments and regimental units.
>
> " (4) The Royal Army Pay Corps and the Corps of Military " Accountants should be amalgamated and the question of future " entry of officers should receive consideration.
>
> " (5) The work and personnel of the new Corps formed by " the amalgamation of the Royal Army Pay Corps and the Corps " of Military Accountants should be administered by the Adjutant- " General to the Forces, subject to Parliamentary requirements.
>
> " (6) Reorganization of the system and method of audit will " be required."

It also proposed that a further Committee should be appointed to make detailed recommendations on specific points.

64. On receiving the report of a Departmental Committee subsequently appointed by the Secretary of State, and on further consideration, the Army Council unanimously decided to abandon the attempt to perfect the system introduced in 1919, and to revert with certain additions to the old form of Estimate and Account, mainly on the ground that the economies effected, or likely to be effected by the new system when developed, do not justify its cost.

65. It is agreed by all witnesses that the new system has not been developed to its complete or logical conclusion, but Sir Herbert Lawrence and Sir Charles Harris hold that if it were so developed, although the immediate result might be an increase of expenditure, the machine would ultimately become a potent instrument for economy.

66. On the other hand the view of the Army Council is that these advantages cannot be secured without a considerable measure of administrative decentralization, to which they are unable to agree. They state that some eighty or even ninety per cent. of Army expenditure is controlled by Headquarters policy or by Army Regulations laid down by the War Office, and that, without administrative decentralization, the economies which have been or can be effected by a completely inter-locking system of accounts showing the actual cost of every unit

of the Army cannot in these circumstances be at all commensurate with the cost of the machinery.

67. Your Committee have considered this problem simply as it affects the Army Accounts, and without reference to its relation to other branches of the public expenditure.

68. Their conclusions are as follows:—

(1) They are unanimously of opinion that in the absence of decentralization as recommended by the Report of the Lawrence Committee it is impossible to apply the system of Army Accounts therein proposed, but they recommend that all possible means should be taken to interest commanders of local units in economy.

(2) They are further of opinion that it is essential, for the purpose of providing adequate safeguards against leakage and inefficiency and of inculcating economy, that regular and continuous costing accounts should be employed in all cases, except those in which they are clearly inapplicable, and also that a complete annual valuation should be taken of stocks.

To the Under Secretary of State, War Office.

My Lords have already informed the Army Council of their concurrence in the proposal to revert to the cash form of Estimates and Accounts instead of the income and expenditure basis adopted tentatively in 1919. *I am accordingly to ask that the Estimates for Army Services,* 1926–27, *may be prepared in accordance with the proposals made in Treasury letter S.* 27220 *of* 27 *October* 1925, *as modified by the proposals in your letter of* 7 *December* (1620167), *which my Lords accept.*

My Lords note the desire of the Committee that all possible means should be taken to interest Commanders of Local Units in economy, and I am to inquire what steps the Army Council propose to take in this connexion.

As regards paragraph 68 (2), *my Lords concur in the view of the Committee that regular and continuous costing accounts should be employed in all cases except those in which they are clearly inapplicable, but the expense of preparing such accounts must be regarded as a factor in deciding in what cases they should be kept. My Lords do not think that the Committee would desire that such accounts should be maintained for particular services, if the cost of producing them were excessive as compared with a reasonable estimate of the value of the benefits likely to accrue from their preparation. I am to suggest that the Army Council should prepare detailed proposals, to be discussed between the Departments.*

My Lords agree with the Committee in desiring an annual valuation of stocks, which they consider should be based on the quantitative records which must, in any case, be maintained and generally on vocabulary prices where applicable. Apart from the special case of war reserves of warlike stores (as to which further consideration may be needed), my Lords consider that statements showing the valuation should be appended to the Appropriation Account.

In addition the Army Council proposed in a letter dated the 22nd ultimo, No. 79/2287 (*M.G.O.F.a*), *that the practice in force up to the outbreak of war, whereby the Quarter Master General and the Master General of the Ordnance certified annually as to the maintenance of the authorized war reserves of stores, should be revived. My Lords concur in the proposed form of certificate and in the concomitant procedure proposed in the letter referred to.*

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Explanation of abbreviations, &c. :—

C. Cd., or Cmd....	Papers presented to Parliament by Command.
Com. J.... ...	House of Commons Journal.
Committee ...	Public Accounts Committee, unless context shows otherwise.
E. and A.D. ...	Exchequer and Audit Department.
H.C.	Papers printed by order of the House of Commons.
P.A.C. 2.1893.52 *or* 2.1893.52 ...	Public Accounts Committee's (Second) Report of (1893) para. (52).
Q. 562	Question (562) of Evidence printed with the Committee's Reports.
Section 6 ...	At the beginning of paragraphs of the Committee's Reports, refers to paragraph (6) of the Comptroller and Auditor General's Report on the accounts under consideration.
T. *or* Ty. ...	Treasury.
T.L.	Treasury Letter.
T.M.	Treasury Minute.

Abandonment of Claims; see *Claims*.

Accountant, ambiguity of term, **28, 30**; title of officer deputed to render Appropriation Accounts changed to *Accounting Officer*, and of officer entrusted with the technical business to *Clerk in charge of Accounts*, **31**.

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